

## AGENDA ITEM



# CITY OF LODI COUNCIL COMMUNICATION

**AGENDA TITLE:** REVIEW OF THE CITY'S ANNUAL FINANCIAL REPORT (FY 2004-05)  
BY MACIAS, GINI & COMPANY

**MEETING DATE:** February 1, 2006

**PREPARED BY:** Interim Finance Director

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**RECOMMENDED ACTION:** That the City Council receives for file the following reports and financial statements submitted by Macias, Gini & Company LLP and the Finance Department for Fiscal Year 2004-05:

- The Combined Annual Financial & Single Audit Report
- Management Report
- Report on Applying Agreed-upon Procedures

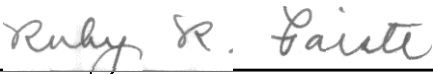
**BACKGROUND INFORMATION:** The annual audit was conducted to assure the City Council and other interested parties that the City's financial records and reports are prepared in accordance with generally accepted accounting principles (GAAP), that internal controls are adequate to safeguard the City against loss from unauthorized use or disposition of assets and that the City has complied with all agreements and covenants to obtain grant funds and debt financing. Macias, Gini & Company LLP ("MG") issued an "unqualified opinion." Scott Brunner, Director of MG will be present to do the presentation and answer questions during the Council meeting.

The reports will be provided to Federal and State oversight agencies, bond trustees and insurance companies for their review and evaluation. Copies of the reports are provided to the City Council and also available to the public by contacting the Finance Department or the City's website at [www.lodi.gov](http://www.lodi.gov) and at the Lodi Public Library.

### Certificate of Achievement

The City received a Certificate of Achievement for Excellence in Reporting from the Government Finance Officers Association of United States and Canada (GFOA) for the 11<sup>th</sup> year and the California Society of Municipal Finance Officers (CSMFO) for the ninth year in a row. A copy of the GFOA certificate is included in the 2004-05 Financial Reports.

**FUNDING:** None

  
\_\_\_\_\_  
Ruby R. Paiste, Interim Finance Director

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APPROVED: \_\_\_\_\_

Blair King, City Manager

K-1

City of Lodi Comprehensive Annual Financial Report Analysis (Unaudited)  
Fund Balance Analysis  
Budget and Actual June 30, 2005

Funds	June 30, 2005		Elements Comprising Fund Balance		
	Budget	Actual	Cash	Other Assets/ (Current Liabilities)	Total
General					
Unreserved	1,565,087	1,506,926			
ReseNedlDesignated	<u>353,578</u>	<u>488,246</u>			
	1,918,665	1,995,172	-96,110	2,091,282	1,995,172
Electric					
Unreserved	3,698,483	4,896,603			
ReservedlDesignated	<u>2,400,000</u>	<u>2,572,434</u>			
	6,098,483	7,469,037	4,896,603	2,572,434	7,469,037
Wastewater					
Unreserved	2,105,679	584,922			
ReservedlDesignated	<u>758,660</u>	<u>1,688,947</u>			
	2,864,339	2,273,869	2,273,869		2,273,869
Water					
Unreserved	<u>269,497</u>	4,300,091			
ReservedlDesignated	<u>1,196,307</u>	<u>0</u>			
	1,465,804	4,300,091	4,300,091		4,300,091
Library					
Unreserved	757,574	697,158			
ReservedlDesignated	<u>0</u>	<u>0</u>			
	757,574	697,158	697,158		697,158
Capital Outlay					
Unreserved	3,059,161	5,490,595			
ReservedlDesignated	<u>1,679,480</u>	<u>972,701</u>			
	4,738,641	6,463,296	5,554,942	917,354	6,472,296
Community Development Block Grant					
Unreserved	0	0			
Reserved/Designated	<u>0</u>	<u>0</u>			
	0	0			0
Employee Benefits					
Unreserved	0	0			
Reserved/Designated	<u>0</u>	<u>0</u>			
	0	0			0
Vehicle and Equipment Replacement					
Unreserved	50,000	150,175			
ReservedlDesignated	<u>0</u>	<u>2,141</u>			
	50,000	152,316	157,521	-5,205	152,316
Self Insurance					
Unreserved	0	0			
ReseNedlDesignated	<u>2,920,165</u>	<u>3,261,419</u>			
	2,920,165	3,261,419	3,261,419		3,261,419

<b>Public Safety Special Revenue</b>						
Unreserved	276,876	283,516				
Reserved/Designated	0	0				
	276,876	283,516	344,544	-61,028	283,516	
<b>Streets</b>						
Unreserved	3,712,746	1,009,182				
Reserved/Designated	0	<u>3,965,554</u>				
	3,712,746	4,974,736	3,607,519	1,367,217	4,974,736	
<b>Transit</b>						
Unreserved	0	230,355				
Reserved/Designated	0	0				
	0	230,355	-1,688,947	1,919,302	230,355	
<b>Transportation Development Act</b>						
Unreserved	35,399	107,229				
Reserved/Designated	0	<u>1,680</u>				
	35,399	108,909	108,389	520	108,909	
<b>Sub-total</b>			<u>23,416,998</u>	<u>8,801,876</u>	<u>32,218,874</u>	
<b>Trust and Agency</b>						
Unreserved	350,000	448,588				
Reserved/Designated	<u>550,000</u>	<u>694,327</u>				
	900,000	1,142,915	1,142,915		1,142,915	
<b>Debt Service</b>						
Unreserved	0	0				
Reserved/Designated	0	0				
	0	0				
<b>Total All Funds</b>						
Unreserved	15,880,502	19,714,340				
Reserved/Designated	<u>9,858,190</u>	<u>13,647,449</u>				
	25,738,692	33,361,789	<u>24,559,913</u>	<u>8,801,876</u>	<u>33,361,789</u>	

filed 2-1-06

**CITY OF LODI, CALIFORNIA**

Report to Management

For the Fiscal Year Ended June 30, 2005



**MACIAS GINI & COMPANY<sub>LLP</sub>**

CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

filed 2-1-06

**CITY OF LODI, CALIFORNIA**

Report to Management

For the Fiscal Year Ended June 30, 2005

**CITY OF LODI, CALIFORNIA**  
**Report to Management**  
**For the Fiscal Year Ended June 30, 2005**

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## MACIAS GINI & COMPANY LLP

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City Council  
City of Lodi, California

We have audited the financial statements of the City of Lodi, California (City) for the year ended June 30, 2005, and have issued our report thereon dated January 25, 2006. Professional standards require that we provide you with information related to our audit. That information is included in the Required Communications section of this report.

Also, in planning and performing our audit of the financial statements of the City for the year ended June 30, 2005, we considered the City's internal controls in order to *determine* our auditing procedures for the purpose of expressing an opinion on the financial statements, and not to provide assurance on internal control over financial reporting.

During our audit for the fiscal year ended June 30, 2005, we became aware of certain matters that represent an opportunity for strengthening the City's internal control and operational efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding the matters. We also followed up on those matters we became aware of during the previous year's audit. Those matters are included in the Status of Prior Year Recommendations section of this report. This report does not affect our report dated January 25, 2006, on the basic financial statements of the City.

This letter is intended solely for the information and use of City Council and management and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the City's management and staff for the courtesy and cooperation extended to us during the course of our engagement. We have discussed our comments and suggestions with management and would be pleased to discuss them further.

*Macias Gini & Company LLP*

Certified Public Accountants

Sacramento California  
January 25, 2006

**CITY OF LODI, CALIFORNIA**  
**Report to Management**  
**Required Communications**  
**For the Fiscal Year Ended June 30, 2005**

**1. The Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133**

As stated in our engagement letter dated July 16, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

**II. Significant Accounting Policies**

Management has the responsibility for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the City changed accounting policies related to financial statement disclosures for common deposit and investment risks by adopting Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Risk Disclosures* and an amendment to GASB Statement No. 3 – *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*, in 2005. We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.



**CITY OF LODI, CALIFORNIA**  
**Report to Management**  
**Required Communications (Continued)**  
**For the Fiscal Year Ended June 30, 2005**

**III. Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were (1) depreciation, (2) allowance for doubtful accounts, (3) compensated absences, and (4) self-insurance liability. We evaluated the key factors and assumptions used to develop those estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

**IV. Audit Adjustments**

For the purposes of this report, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we posed, whether recorded or unrecorded by the City, either individually or in aggregate, indicate matters that could have a significant effect on the City's financial reporting process.

**V. Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the basic financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**VI. Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If consultation involves applications of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**VII. Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**CITY OF LODI, CALIFORNIA**  
**Report to Management**  
**Required Communications (Continued)**  
**For the Fiscal Year Ended June 30, 2005**

**VIII. Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit

**CITY OF LODI, CALIFORNIA**  
Report to Management  
Current -Year Management Comments and Recommendations  
**For the Fiscal Year Ended June 30,2005**

**ENVIRONMENTAL REMEDIATION**

Condition

The Governmental Accounting Standards Board (**GASB**) issued a Preliminary Views (PV) document on issues related to Accounting and Financial Reporting for Pollution Remediation Obligations on March 25, 2005. This document is proposing that once any one of five specified obligating events occurs, governments would be required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired.

Recommendation

With the City's ongoing environmental contamination remediation issue, we recommend that the City be aware of and review this possible new future GASB standard and ensure that the City be positioned to implement this standard if and when it becomes effective.

Management Response

The City is aware of this PV and plans to analyze its impact on the City's financial statements, so the City's well-positioned if and when it becomes effective.

**INFORMATION TECHNOLOGY (IT)**

**Information Technology Administration – Policies and Procedures**

Condition

Administrative policies and procedures exist covering certain areas of IT, but lack sections dealing with network security, password protection and configuration, and confidentiality of information.

Recommendation

The City should consider appending the current administrative policies and procedures to include sections pertaining to computer network security, password protection and configuration, and confidentiality of information.

Management Response

A new Electronic Media Use Policy has been drafted and is in the process of being approved. The new policy is reported by Information Systems (IS) management to address the areas of computer network security, passwords, and confidentiality of information.

**Information Technology Administration – New-Hire Training**

Condition

New-hire training for the City is not properly documented to include an introduction of IT policies and procedures. New-hire training is the first introduction an employee has to the City's operations and can be an effective method of communicating all pertinent IT policies and procedures. An Information Security Handbook has been completed and is currently under review by the City Manager's office. The City's IS management reported that the handbook is designed to be distributed to all current and new employees and contains information specific to this finding.

**CITY OF LODI, CALIFORNIA**  
**Report to Management**  
**Current -Year Management Comments and Recommendations**  
**For the Fiscal Year Ended June 30,2005**

Recommendation

The City should continue with efforts to review and implement the Information Security Handbook and disseminate the information to all current and new employees. A statement of understanding should also be signed by employees confirming receipt and acceptance of the policies.

Management Response

Information Systems management agrees with the recommendation.

**Logical Security – Security Administration**

Condition

The security administration function is not a documented role with defined responsibilities.

Recommendation

The job description for the Information Systems Manager should be updated to include the security administrator function with a defined role and responsibilities. In this way the expectations of the role and the associated responsibilities are clearly defined for all personnel

Management Response

City IS management report that a recommendation has been made to the City Manager, including new language to be included in the IS Manager job description, in response to this recommendation.

**Logical Security – Failed Logon Attempts**

Condition

Three failed logon attempts will lock out the user from the network for five minutes. While the five minute disabling period provides a level of control over unauthorized system access, it still leaves the system vulnerable to repeated attempts over an extended period of time and could be enhanced

Recommendation

While a measure of control exists to address repeated unauthorized access attempts, the City should consider increasing the disabling period to 15-30 minutes to enhance security

Management Response

Information Systems management agrees that a lockout period of more than five minutes can be done and may be useful. Steps will be taken to implement this recommendation.

**Logical Security - Passwords**

Condition

Passwords for the network are only required to be non-zero in length and six to 10 characters for the AS400 and applications. There are no expiration periods for passwords on the network, AS400, or applications. Periodic changing of passwords provides an increased level of security on the network and applications. There is no set number of changes required until a password can be reused.

**CITY OF LODI, CALIFORNIA**  
**Report to Management**  
**Current -Year Management Comments and Recommendations**  
**For the Fiscal Year Ended June 30, 2005**

Recommendation

Password security for the City's network and financial applications should be enhanced by:

- Establishing a minimal configuration standard for the network. AS400, and applications for a password length of at least 6 characters containing both alphas and numerics.
- Instituting and enforcing an expiration period for passwords.
- Configuring the network. AS400, and application to allow only a minimal number (e.g. 5) of password changes before a password can be reused.

Management Response

Information Systems management agrees in principle with the recommendation. There are several reasons the IS Division has not implemented such requirements and restrictions. The Graphical User Interface (GUI) version of the AS400 interface will not easily allow users to change their expired passwords, and most of the IBM users rely on the GUI. The likely result would be some users being locked out of the system for extended periods of time and a significant amount of time being spent re-enabling user accounts.

**Logical Security – Automatic Log Off**

Condition

There is no automated function to log a user off the network after a set period of inactivity. An open network account with no activity creates the risk of unauthorized usage by someone other than the account owner and should be curtailed whenever possible by automatically logging off an account after a period of inactivity.

Recommendation

The City should consider enhancing their network security by implementing an auto logout period for network connections. Alternatively, desktop screensavers with the password protection activated could be forced down through the network domain. Instituting password protected screen savers should not pose a risk of data loss.

Management Response

Information Systems management agrees in principle with the recommendation. The main reason this procedure has not been implemented is that it must be done enterprise-wide. The Information Systems Division will research the possibility of pushing screensaver password requirements to end users and implement accordingly.

**Logical Security – Departing Employees**

Condition

There is not an official policy and associated procedures outlining the timely notification of the network and applications managers of a departing employee, contractor or temporary worker. Disabling or removing the accounts of inactive users in a timely manner is essential to inhibit malicious activity on the computer systems.

**CITY OF LODI, CALIFORNIA**  
**Report to Management**  
Current -Year Management Comments and Recommendations  
**For the Fiscal Year Ended June 30, 2005**

Recommendation

The Cih should develop an official policy and procedure to ensure that the network manager and the financial application managers are notified in a timely manner whenever there is a departing employee, contractor or temporary worker with an active user account to the computer systems.

Management Response

Information Systems management agrees with this recommendation. Such a policy would likely be developed and advanced by someone not in the IS Division

Logical Security – Access Rights

Condition

There is no policy and procedure to ensure that all system and application access rights are authorized and up-to-date. All users must complete a written application, signed by their supervisor, the respective department head and IS Manager, in order to be issued a user account for the AS400 or any systems hosted by the IBM. The user accounts remain active until revoked. While this addresses the initial issuance of user accounts and their associated authorization level, it does not address the control objective of ensuring that all access rights are up-to-date. Personnel may move between positions wherein the authorizations for those positions are not the same. Currently, reviews only check for obsolete accounts and do not address existing accounts for appropriateness.

Recommendation

The IS Division should establish procedures to periodically review the lists of system and application users to ensure that access rights are authorized and up-to-date. In addition, the process for approving authorization to access the financial application should be reviewed to ensure that only authorized persons are given the proper access to the system. This could include a review of persons by the Director of Finance.

Management Response

Information Systems management believes the current level of review is sufficient, given the number of authorized signatures required to obtain a user account. Periodic reviews are made to ensure that no obsolete accounts exist. Accounts will also be reviewed for appropriateness.

Accounting System Development and Maintenance

Condition

While most procedures for the accounting system development and maintenance are in place, they are not formally documented. Having the policies, procedures and standards formally documented should address any ambiguity in implementation and reliance upon only a few key individuals

Program changes are not always initiated, tested and approved by the functional users before being applied to the production system.

The IS Division Programmer is not restricted from making changes in the production environment and is also responsible for transporting changes and updates from the test environment to the production system

**CITY OF LODI, CALIFORNIA**  
**Report to Management**  
**Current -Year Management Comments and Recommendations**  
**For the Fiscal Year Ended **June 30, 2005****

Recommendation

Official policies, procedures and standards for the accounting system development and maintenance should be documented and maintained. These policies, procedures and standards should ensure that:

- All new programs and changes are initiated and approved by the appropriate user management.
- The impact of new programs and updates are assessed in a test environment before implementation in the production system.
- Programmers do not have update access to the production system, except for emergency fixes.
- Any emergency fix in the production system is properly logged.
- Program testing is reviewed and approved by someone other than the programmer.
- The process of moving programs into the production system is formal, well documented, and performed by someone independent from programming.

Management Response

City IS management staff report that a new Documentation system (DOCS) has been implemented for use by ISD staff members. The system is a repository for system assignments, location of source code files, etc. Management report that current staffing does not allow for implementation of some of these recommendations.

**Packaged Accounting Software and Systems Software – Selection Method**

Condition

There is not currently a documented system and application software selection method outlined for the City

Recommendation

The City should document their system and application software selection processes and ensure that the following areas are addressed:

- Business needs.
- Technical requirements.
- Analysis/comparison of several products
- Implementation issues, including conversion, and
- Cost/benefit analysis

The City should pursue the needs assessment for the new financial and billing system as noted below, but the procedures for system and application acquisition should be documented.

Management Response

The Information Systems Manager has recommended to upper management that a qualified consultant be hired to examine the city's business, technical and user needs as part of the process of selecting a replacement for the city's current financial and billing systems software.

**Packaged Accounting Software and Systems Software – Test Environment**

Condition

The IS Division has implemented a test environment for application software, but not for system software. Update and patches are being applied directly to the production system.

**CITY OF LODI, CALIFORNIA**  
**Report to Management**  
**Current -Year Management Comments and Recommendations**  
**For the Fiscal Year Ended June 30,2005**

Recommendation

Procedures to test updates to system software should be implemented. either on a separate machine or as a partition with the current AS400, to ensure that updates and upgrades are not applied directly to the production system without proper testing beforehand.

Management Response

The recommendation has merit. under ideal conditions. The **IS** Division will research the possibility of partitioning the current system to allow for system software testing. Additionally. Information Systems management feels that current testing practices do not present an unacceptable level of risk to the city or the IBM computing environment.

**Computer Operations – Guidance and Continuity**

Condition

Computer operations policies. procedures. and standards are not officially documented to provide official guidance and continuity to computer operations.

Recommendation

The IS Division should develop and officially document computer operations policies. procedures. and standards.

Management Response

City IS management reported that the operations desk has thoroughly documented procedures related to the processes and activities of that station. At the same time. the Information Systems Manager has begun the process of compiling an IS Division Policy and Procedures book that will address standards and operating procedures.

**Computer Operations – Computer Room**

Condition

The City has moved the computer room which now has a separate dedicated air conditioning system, Uninterrupted Power Supply (UPS) and generator. The room is secured with standard lock and key controlled by the IS Division staff and facilities maintenance. An intrusion alarm system and temperature and water alarms have been installed and are monitored by a local security company. The room is equipped with a sprinkler system for fire suppression.

Recommendation

The IS Division should consider replacing the water sprinkler system with a dry fire suppression system. If local building ordinance requires the use of a water based system. the City should consider a dual system with a pre-action type sprinkler.

Management Response

It is agreed that a dry fire suppression system such as halon would be better than water sprinklers. However. cost may be prohibitive.



**CITY OF LODI, CALIFORNIA**  
**Report to Management**  
Current -Year Management Comments and Recommendations  
**For the Fiscal Year Ended June 30,2005**

**Computer Operations – Disaster Preparedness/Business Continuity Plans**

Condition

The City currently has no disaster preparedness or business continuity plans in place,

Recommendation

The City should work to develop a comprehensive disaster preparedness and business continuity plan. The plan, upon completion, should be thoroughly tested and provisions made for periodic reviews of the plan.

Management Response

The City IS manager reported that the Division is in the process of developing a disaster recovery and business continuity plan.

**Computer Operations – Service Level Agreements**

Condition

Service level agreements between the IS Division and the user departments are not in place. Help-desk services are provided, but without documented policies and agreements, an acceptable level of service cannot be properly defined.

Recommendation

Service level agreements between the user departments and the IS Division should be instituted to define the level of service to be expected.

Management Response

Information Systems management agrees with this recommendation.

**Computer Operations – Unauthorized Use of Software**

Condition

There are no procedures in place to ensure that there is no unauthorized use of software within the City.

Recommendation

The IS Division should institute official procedures for the review of software installed on computers at least yearly. The City should make efforts to protect itself from the liability of employees using unauthorized software. An alternative to the physical review of installed software is to require administrator privileges on network computers in order to install any software.

Management Response

The policing of installed software on users' PCs is not done currently, nor is it considered practical at this time.

**CITY OF LODI, CALIFORNIA**  
**Report to Management**  
**Current -Year Management Comments and Recommendations**  
**For the Fiscal Year Ended June 30, 2005**

**Computer Operations – Read-Write Access to the JDE Application**

Condition

It was noted during our review that read-write access to the JDE application is limited to select Finance and IT Divisions personnel. Other City departments may have only read access to the application. As such, an PO or obligating document must be done manually and then submitted to the Finance Division. Having the individual departments conduct their purchasing outside of the financial application can create situations where departments spend money for which they may not have the budget. City IS management report that an updated purchasing policy has been passed by the City Council and is scheduled for implementation.

Recommendation

It is recommended that a review be conducted specific to the Purchasing/Accounts Payable function. The City should continue with efforts to implement the new purchasing policy, ensuring that all department POs are managed within the financial application and that budgeted funds are available.

Management Response

Users are granted read-write privileges as warranted. Many departments are now inputting their own requisition and purchasing data, and users are being granted access rights commensurate with their needs.

**Other Matters**

During the time under audit, the City's IS Division was a sub-office to the City Manager's office and not on par with other City departments, such as Finance and Human Resources. The concern this structure created was that the IS Division was reporting to a functional user or did not have the organizational status of their functional users. This structure had the potential to create conflicts of interest and project planning concerns. However, since year-end, the City has undergone an organizational restructuring. Now, Finance and Human Resources have become divisions, along with the IS Division, of the new Internal Services Department, which report to the new Deputy City Manager. Now that the IS Division is on par with the Finance and Human Resources divisions, it appears that this concern has been addressed.

In summary, our review of general computer controls of the financial application at the City found that most of these conditions do not preclude the City from a basic level of assurance. Therefore, efforts should be made to either implement the recommendations when staffing and/or funding is available or look for other controls that can be instituted that will strengthen controls. However, the City should address the physical protection of computer assets in the computer room before a basic level of assurance is warranted.

**CITY OF LODI, CALIFORNIA**  
**Report to Management**  
**Prior -Year Management Comments and Recommendations**  
**For the Fiscal Year Ended June 30,2005**

**CAPITAL ASSETS**

Condition

During our audit of the City's financial statements for the year ended June 30, 2004, we noted that the acquisition and construction of capital assets is maintained on a spreadsheet, outside of the City's accounting system, which can lead to inaccurate recording and depreciation of capital assets.

Recommendation

We recommend that the City place into operation the JDE fixed asset module that records the City's capital assets and automatically calculates depreciation. The system would support the City's depreciation method and automatically post accumulated depreciation expense to the General Ledger module for a specified accounting period.

The system provides methods to track assets, their beginning cost, current value, and method of depreciation. Some of the advantages include:

1. Flexible Asset Numbering System – an unlimited number of assets can be maintained. The assets can be grouped by many types of categories for reporting purposes.
2. User Defined Asset Control - Accumulated depreciation, depreciation expense and asset master accounts can be user specified for each asset.
3. Reports - variety of reports can be produced including a listing of all assets by type, category and description, method of depreciation, and all other information maintained in the master file. The module could be programmed to also print reports listing assets with original cost and current book value plus calculated depreciation for a specified period.

To reduce operating overhead, the City should consider hiring temporary staff for data entry into the capital assets module.

Prior Year Management Response

When Finance migrated to the JDE General Accounting system in 1997, the implementation of all the modules was prioritized. The Fixed Asset module at the time was at the lowest priority. The task of converting the asset files in JDE requires set up and data entry that the current personnel can not accommodate without overtime or part time help. In light of the current budget cut demands from management, the implementation of the Fixed Asset module is recommended to be deferred at this time.

Current Year Status

Condition unchanged.

Current Year Management Response

This condition/recommendation will be addressed in the upcoming budget

**CITY OF LODI, CALIFORNIA**  
**Report to Management**  
**Prior -Year Management Comments and Recommendations**  
**For the Fiscal Year Ended June 30, 2005**

**FTA INDIRECT COSTS**

Condition

We noted, during our review of the fiscal year 2003/2004 Federal Transit Administration (FTA) apportionment, that management had originally decided to use the apportionment to cover indirect costs. Per our review ~~of~~ FTA guidelines, grantees who intend to seek FTA reimbursement for indirect costs must prepare a cost allocation plan that has been approved by the FTA or another cognizant Federal agency. Further inquiry determined that the cost allocation plan has not been approved in the prescribed manner.

Recommendation

We recommend that the City perform a review of all grants and make the determination if indirect costs can be applied against grant funds.

Prior Year Management Response

The Finance Department and Transit will work together in the development of a comprehensive cost allocation plan that will be submitted to FTA for approval. The City will also look into the other grants to determine if indirect costs can be reimbursed once a cost allocation plan is established.

Current Year Status

Condition unchanged.

Current Year Management Response

This condition/recommendation will be addressed in the upcoming budget.

**FTA DRAWDOWNS**

Condition

It has come to our attention that FTA apportionments are revealed to the City through the Federal Register. The City of **Lodi** can draw down **FTA** apportioned funds throughout the year in accordance with amounts established per the FTA. Currently, Tiffani Fink, Transportation **Manager** is responsible for the draw down of funds as needed. However, this process has not occurred due to ongoing negotiations between the City of Lodi and the City of Galt to split FTA funds.

Recommendation

We recommend once negotiations between the two cities is finalized, procedures be put in place where the Transportation Manager makes withdraw requests to the Finance Department for FTA funds.

Prior Year Management Response

Procedures for FTA drawdowns are ~~now~~ set in place as follows:

When an FTA Electronic Clearinghouse Operation (ECHO) drawdown is to be requested, the City Transportation Manager will complete the drawdown request form, attaching all necessary information as backup. This packet will then be sent to the City's Senior Accountant for review. The Senior Accountant shall attach all necessary run data and verify the correct expenditures and reimbursement ratios.

**CITY OF LODI, CALIFORNIA**  
**Report to Management**  
**Prior -Year Management Comments and Recommendations**  
**For the Fiscal Year Ended June 30, 2005**

The Senior Accountant will then process and request the drawdown from the ECHO system. Once the funds are received, a copy of the confirmation will be sent to the Transportation Manager for the Transit files. All originals shall be maintained in the Finance Department.

Current Year Status

The procedure is set in place as recommended. Recommendation considered implemented



CITY OF LODI, CALIFORNIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2005

**CITY OF LODI, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**Year Ended June 30, 2005**

**JOHN BECKMAN, MAYOR**  
**SUSAN HITCHCOCK, MAYOR PRO TEMP**  
**LARRY HANSEN, COUNCILMEMBER**  
**BOB JOHNSON, COUNCILMEMBER**  
**JOANNE MOUNCE, COUNCILMEMBER**

**BLAIR KING, CITY MANAGER**

**Prepared by the Finance Department**  
**James Krueger, Finance Director/Treasurer**  
**Ruby Paiste, Accounting Manager**  
**Coriene Wadlow, Sr. Accountant**  
**Odette Bondoc, Accountant II**

## INTRODUCTORY SECTION

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**CITY OF LODI  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2005**

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CITY COUNCIL

JOHN BECKMAN, Mayor  
SUSAN HITCHCOCK, Mayor Pro  
Tempore  
COUNCILMEMBERS:  
LARRY HANSEN  
BOB JOHNSON  
JOANNE MOUNCE

CITY OF LODI

CITY HALL, 221 WEST PINE STREET  
P.O. BOX 3006  
LODI, CALIFORNIA 95241-1910  
(209) 333-6706  
FAX (209) 333-6795

BLAIR KING

City Manager

SUSAN BLACKSTON

City Clerk

STEVE SCHWABAUER

City Attorney

January 25, 2006

To the Honorable Mayor, **Members of the** City Council  
and Manager **of the** City **of** Lodi:

The Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005, is hereby submitted. This report is provided to present the financial position, results of operations and cash flows of the City's proprietary funds as of June 30, 2005, in conformity with generally accepted accounting principles. The report conforms to the highest standards of financial reporting as established by the Governmental Accounting Standards Board (GASB), for reporting by State and local governments. The responsibility for the accuracy, fairness and completeness of the report rests with the City.

This report consists of management's representations concerning the finances of the City of Lodi. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Lodi has established a comprehensive internal control framework that is designed to protect the City's assets from **loss**, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with **GAAP**. We believe that the information is accurate in all material respects and that it is presented in a manner designed to fairly present the financial position of the City. In addition, we believe that all disclosures necessary to enable the reader to gain full understanding of the City's financial activities have been included.

The CAFR is presented in four sections: introductory, a financial section, a statistical section and single audit section. The introductory section includes the transmittal letter, the City's organization chart and a list of principal officials. The financial section includes the independent auditors' report, management discussion and analysis, the basic financial statements, notes to the financial statements, required supplementary schedules, **and** the combining and individual statements. The single audit section includes the schedule of expenditures of federal awards, notes to the schedule, and reports on compliance and internal control based on the audit of the basic financial statements and on compliance and internal control with requirements applicable to each major program in accordance with OMB Circular A-133. The statistical section includes selected financial and demographic information presented on a multi-year basis.

This **letter** of transmittal is designed to complement the **MD&A** and should be read in conjunction with it. The **MD&A** can be found immediately following the independent auditors' report.

## THE REPORTING ENTITY AND SERVICES PROVIDED

The funds and account groups included in the CAFR are those deemed dependent upon the City and controlled by the City Council and reflect the City's financial reporting entity in accordance with GASB Statement 14.

The City provides a wide range of municipal services including public safety (police, fire and graffiti abatement), public utilities services (electric, water and wastewater), transportation services (streets, flood control and transit) leisure, cultural and social services (parks and recreation, library and community center), and general government services (management, human resources administration, financial administration, building maintenance and equipment maintenance).

Several municipal services are provided through other government agencies, private companies or public utility companies, including:

	Number of Facilities
Elementary and Secondary Schools	18
Sanitation (solid waste) and Cable Television	2
Ambulance	1
Gas and Telephone	2

## ECONOMIC CONDITION AND OUTLOOK

The City is located in the San Joaquin Valley between Stockton 10 miles to the south, and Sacramento 35 miles to the north, and adjacent to U.S. Highway 99. The City population is 62,467 and is contained in an area of 12.81 square miles. The City has grown steadily since incorporation in 1906 and is projected to grow to 70,500 people by the year 2007. The City's growth is provided for in both the General Plan and the City's growth control ordinance that allows an increase in population of 2% per year until the growth limits are reached.

Lodi is built on a strong and broad based agricultural industry with national and industrial markets for its commodities and products. Wines, processed foods, nuts, fruit and milk are major commodities of the Lodi area and provide the basic material for food processing and packaging. These commodities support the operations of General Mills, Guild Winery and Pacific Coast Producers to name just three companies in the business of processing local agricultural commodities.

In addition, Lodi has a wide range of small, financially sound businesses that add to the economic strength of the City. These companies range in size from 10 to 150 employees and produce a wide variety of products, services and commodities.

Over the past several years, there has been an increase in industrial and residential development that has been unprecedented since the early 1980s. This new development combined with the growing strength of the wine/grape industry is a positive indicator for Lodi. The City's focus on economic development has successfully encouraged numerous big industries to move to Lodi that collectively created hundreds of new jobs.

## Economic Development

Lodi continues to be committed to promoting economic development (business retention and attraction) and expanding the tax base to fund city services rather than increase taxes to pay for these services. The City developed long and short-term economic development goals in conjunction with the Chamber of Commerce that resulted in the revitalization projects for the downtown and Cherokee Lane areas. In addition to revitalization efforts, the City has adopted a number of incentives to retain and attract new businesses. These incentives included infrastructure improvements, regulatory flexibility, tax credits and utility rate incentives.

## MAJOR GOALS, OBJECTIVES AND PROJECTS

To assist the citizens of Lodi in understanding where the City intends to allocate available resources, the City Council, the City Manager and Department Heads have established a hierarchy of major goals, objectives and major projects that support and re-enforce the City's mission statement.

Four major City goals were established as policy direction and focal points for the efforts of City staff. These goals include:

- Ensure a High Quality of Life and a Safe Environment for Citizens
- Ensure Efficient and Productive City Organization
- Ensure Public Trust, and
- Ensure the Development of the Lodi Economy for a Fiscally Sound City Organization

City Council, the City Manager and Department Heads established nineteen major City objectives:

- |   |   |
|---|---|
| Maintain City's Sense of Community  | Provide Employee Training and Education                   |
| Provide for a Balanced Community  | Evaluate Telecommunications Opportunities                 |
| Enhance Access through Implementation of Information Systems Strategic Plan | Provide Resources to Maintain City's Infrastructure       |
| Promote Urban Forestry  | Promote Public Relations and Marketing Efforts            |
| Attract, Retain and Invest in a Quality City Work Force                     | Ensure Open and Accessible Public Meetings                |
| Encourage Public Arts, Cultural and Recreational Opportunities              | Pursue Efforts to be Entrepreneurial                      |
| Provide Appropriate and Sufficient City Facilities                          | Improve Customer Service                                  |
| Develop Short and Long Range Operational Plans                              | Continue to use Partnerships to Advance City's Objectives |
| Develop Effective Records Management Program                                | Provide a Balanced Budget & Adhere to Adopted Policies    |
| Promote Commercial/Industrial Base  |   |

Projects represent the foundation of the planning statements for the City of Lodi. These projects are designed to accomplish specific objectives and become the focus for organization wide effort.

As discussed above, economic revitalization continued to be an active focal point of the City in 2004-05. The following major City projects were planned in the 2003-05 two-year budget document: 1) remodel of the old Public Safety building and Civic Center Complex; 2) replacement of Animal Shelter Facility; 3) construction of the DeBenedetti Park/G-Basin; 4) development and construction of an indoor sports and activity center; and 5) construction of an aquatics complex.

During fiscal year 2004-05, some of these projects were in various phases of the capital improvement project process, and some General Fund projects were put on hold until a revenue stream is identified.

The slow down in the capital development comes at a time when the cost of City services is increasing leaving less discretionary money. However, the projects identified by the City Councils in the past years remain a high priority.

The major Capital Projects that were placed on hold due to budget constraints facing the City in 2004-05 are:

#### **Public Safety Building Remodel and Expansion**

The Public Safety Building is over thirty years old and it has many mechanical and design deficiencies. Remodeling this building to provide additional workspace, parking and related site improvements, a complete retrofit of the HVAC system, replacement of jail facility, full compliance with the Americans with Disabilities Act requirements, more space for public safety ~~des~~ and a Police and Civic center parking structure

#### **Animal Shelter Facility**

The Lodi Animal shelter was built in the 1960's to service a community of approximately 26,000. As most shelters built at that time, its purpose was to be a 'dog pound' i.e. a place to impound stray and vicious dogs before euthanizing them. The current shelter cannot meet the newly mandated State law or fulfill the expectations of a community eager to provide more humane animal care.

The estimated cost of the project is \$4 million, which is \$1.5 greater than the original estimate made in June 2001. This will be an 18,000 square foot facility on a 3-acre site. It will include kennels, isolation kennels, community classroom, a clinic, storage areas, exercise areas and areas set aside for expansion of kennels. The project completed the design phase prior to being placed on hold pending identification of a revenue source.

#### **DeBenedetti Park/G-Basin**

This project consists of design and development of a youth sports complex (with lighted fields) and park within the "G-basin", which provides storm water storage in the park. This project is one of the highest unranked projects identified by the Parks and Recreation Commission and the City Council. The estimated cost of the project is \$11.2 million, which is approximately \$5 million greater than the estimate in June 2001. The project has gone through the schematic design and construction design phases. The General Fund portion of the project has been put on hold; however, the portions funded by other sources of revenue are expected to proceed.

#### **Indoor Sports and Activity Center**

This project consists of development and construction of a 40,000 square foot building to provide space for a gymnasium, exercise rooms, kitchen, meeting rooms and offices for community use. The estimated cost is \$10.9 million and is currently in the schematic design phase. The construction design phase has been completed.

#### **Aquatics Complex**

This project consists of design and construction of a recreation pool with water features, a 50-meter competitive pool, snack bar, changing rooms, showers, parking and picnic areas. The estimated cost of the project is \$7 million, which is a \$4 million increase from the estimate made in June 2001. The project passed through the design phase prior to being placed on hold



A Citizens Sales Tax Initiative was circulated in the Fall of 2004 and is slated for the November 2006 general election. If approved, a ¼ cent sales tax increase would be used to fund the Indoor **Sports** and Activity Center and the Aquatics Complex.

## FINANCIAL INFORMATION, MANAGEMENT AND CONTROL

A detailed understanding of the financial position and operating results of the City is provided in the following sections of this report. The following is a brief description of the City's financial condition, management practices and control techniques.

### Basis of Accounting

Basis of accounting refers to the policy as to when revenues, expenditures or expenses are recognized in the financial accounts and reported in the financial statements. The City's accounting records for general government operations are maintained on a modified accrual basis. Revenues are recorded when available and measurable. Expenditures are recorded when the **services** or goods are received and the liability incurred. For proprietary fund types, the **City uses** the accrual basis of accounting. **As** such, the measurement focus **is** on net income in addition to financial position and changes in financial position. Revenues are recognized when earned and expenses are recognized as the liability is incurred. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

### Accounting System and Budgetary Control

In developing the City's accounting system, consideration is given to the adequacy of the internal controls. The objective of the City's internal accounting controls is to provide reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; and to ensure that transactions are properly recorded to permit the preparation of financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived and that estimates and judgments are required to be made by management in evaluating these costs and benefits.

In addition, the City maintains budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. The City Manager **is** responsible for the preparation of the budget and its implementation after adoption. The City Council has the authority to amend the budget at any time during the year. The City Manager has the authority to make adjustments to the budget as long as those changes will not have a significant policy impact nor affect budgeted yearend balances. During fiscal year **2004-05**, the City Council and City Manager made several supplemental budget appropriations, the majority of which relate to capital **projects**.

### Fund Balance

**It** is the City's goal to target and maintain an unreserved, undesignated fund balance in the General Fund and working capital balances in the Electric, Water and Wastewater enterprise funds of at least 15% of operating expenditures. This goal allows for variations from year-to-year to account for economic and fiscal changes. The General Fund maintained an unreserved undesignated fund balance of \$1,506,926 or 3.5% of operating expenditures at the end of fiscal year 2004-05. The fund balance is of concern to the City Council and was addressed during the fiscal year by implementing budget cuts and raising various fees.

### Cash Management

**The** City has written investment policies that address a wide range of investments. These policies describe the **City's** investment objectives, investment authority, allowable investment vehicles, maturity terms and eligible financial institutions. They also describe the City's capital

preservation and cash management objectives. As provided in the policy, investments are intended to be held until maturity and investment terms are to be consistent with the City's cash flow needs. Investment reports are issued both monthly and quarterly to the City Manager and City Council to provide detailed information regarding the City's investments and compliance with City policy and as required by state law. An important objective of the City's investment policy is to achieve a reasonable rate of return on public funds while minimizing risks and preserving capital. In evaluating the performance of the City's investment portfolio, investments are expected to yield a rate of return that regularly meets or exceeds an average rate of return on a three-month U.S. Treasury Bill.

#### Appropriation Limitation

Article XIII B of the Constitution of the State of California (Proposition 4) provides for the limitation of expenditures by state and local governments. Under the provisions of this article, City appropriations funded through tax sources may not exceed Fiscal Year 1979 appropriation levels except as adjusted for increases in population and the growth in the California per capita income or non-residential assessed valuation due to new construction within the city.

Excluded from the limitation are appropriations funded through charges for services, fines and forfeitures, grants, transfers of service responsibilities between government agencies and indebtedness incurred prior to Fiscal Year 1979. Pursuant to subsequent legislation adopted after Article XIII B, the City is required to annually establish and adopt its appropriations limit by resolution. For 2004-05, the City's appropriations subject to limit were \$29,221,131 and the appropriation limit was \$62,182,939 a favorable variance of \$32,961,808.

#### Debt Administration

At June 30, 2005, the City had outstanding Certificates of Participation of \$145,077,626. These liabilities are discussed in Note 8 of the Basic Financial Statements and summarized below.

The City issued a \$5.0 million Certificates of Participation (1995) COP to fund its share of capital improvements in the downtown and Cherokee Lane areas. These bonds were refunded by the issuance of the 2002 Certificates of Participation. The City also issued \$1.97 million limited obligation improvement bonds for the Central City Revitalization Assessment District on July 22, 1996. The improvement bonds of the assessment district are not general obligations of the City.

The City also issued \$10.12 million for the renovation of the Performing Arts Center on August 1, 1996; the 2002 Certificates of Participation also refunded these bonds. The Electric Utility issued \$43.96 million Certificates of Participation to finance the costs of certain improvements to the distribution and transmission facilities of the City's electric system. These bonds were also refunded by the issuance of the 2002 Electric Systems Revenue Certificates of Participation.

On November 2002, the City issued the 2002 Revenue Certificates of Participation Series C for \$21,225,000 and 2002 Series D for \$22,740,000, to buy out the energy purchase agreement entered into by the City in January 2002 with Calpine.

On October 21, 2003, the City of Lodi and the City of Fort Bragg issued Water and Wastewater revenue bonds (2003B) through the California Statewide Communities Development Authority ("the Authority") under its pooled financing program. Total bonds issued were \$9,855,000 of which \$5,000,000 was for the upgrade of the City of Lodi's wastewater facilities.

The City issued \$27,360,000 in Wastewater Certificates of Participation (2004A) to finance the costs of improvements to the wastewater collection, treatment and disposal system

The City's debt management policy includes a commitment to monitor all forms of debt annually during the preparation of the City's Financial Plan and Budget to ensure compliance. Also, the City will generally conduct financing on a competitive basis, will seek an investment grade rating on any direct debt and will obtain credit enhancements **such** as letters of credit or insurance when necessary for marketing purposes, availability and cost effectiveness.

#### Interim Financial **Reporting**

Monthly financial reports are prepared to present the City's financial condition and results of operations. These executive reports are organized using the "pyramid" approach. **As** such, the highest level of summary data is presented first, followed by progressively greater levels of detail. The reports provide current period and year to date revenues, expenditures and encumbrances for all activities and funds, including year to date estimates and variances.

#### Single Audit

The City is subject to financial and compliance reporting required by the Single Audit Act Amendments of 1996 and OMB Circular A-133, which is a requirement of all **local** and state governments receiving federal financial awards. As part of the Single Audit, tests are made to determine the adequacy of internal controls, including that portion related to federal financial awards, as well as to determine that the City has complied with certain applicable laws and regulations governing federal funds. The Single Audit report is published as part of the annual financial statements for easy reference.

#### Competitive Bidding Policy

All required purchases for materials, equipment and services during 2004-05 were made pursuant to competitive bidding procedures as established under the City's purchasing ordinance. Contracts for construction projects were awarded pursuant to competitive bidding procedures established by the State of California for projects in excess of \$5,000.

#### **Risk Management**

The City is **self-insured** for dental care, workers' compensation, general liability and unemployment insurance. General liability and workers' **compensation** are administered by outside agencies. The City administers unemployment insurance. Self-insurance transactions are accounted for under the **City's** Claims and Benefits Fund. **At June 30, 2005**, the Claims and Benefits Fund had a deficit of **\$1,895,488**. The City is implementing a phased deficit reduction plan recommended **by** an actuary to gradually eliminate the deficit in the Internal Service Fund.

#### INDEPENDENT AUDIT

The City Council requires an annual audit of the records and accounts of the City by an independent certified public accountant. To ensure internal control periodically the City conducts a request for proposal (RFP) process for auditing services. The accounting **firm** of Macias, Gini & Company **LLP** was selected to perform this audit. The independent auditors' report precedes the basic financial statements and concludes that the City's **basic** financial statements are presented fairly, in **all** material respects, in accordance with accounting principles generally accepted in the United States of America.

## **CERTIFICATES OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2004. The City did not submit for the California Society of Municipal Finance Officers (CSMFO) award program last year. These Certificates of Achievement are prestigious national and state awards recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City has received a Certificate of Achievement for the last ten consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements and we are submitting it to GFOA and CSMFO this year.

## **ACKNOWLEDGMENTS**

As always the professionalism, dedication and efficiency of the Finance Department Accounting **staff** made it possible for the timely preparation of this report and are to be commended. I would also like to personally thank Ruby Paiste, Accounting Manager, and Cory **Wadlow**, Senior Accountant, Odette Bondoc, Accountant II and Tyson Mordhorst, Senior Programmer Analyst. Their work in preparing this year's CAFR is greatly appreciated.

I would also like to thank you for your continued interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



**James R. Krueger**  
Finance **Director/Treasurer**

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lodi,  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2004

A Certificate of Achievement for Excellence in Financial  
Reporting is presented by the Government Finance Officers  
Association of the United States and Canada to  
government units and public employee retirement  
systems whose comprehensive annual financial  
reports (CAFRs) achieve the highest  
standards in government accounting  
and financial reporting.



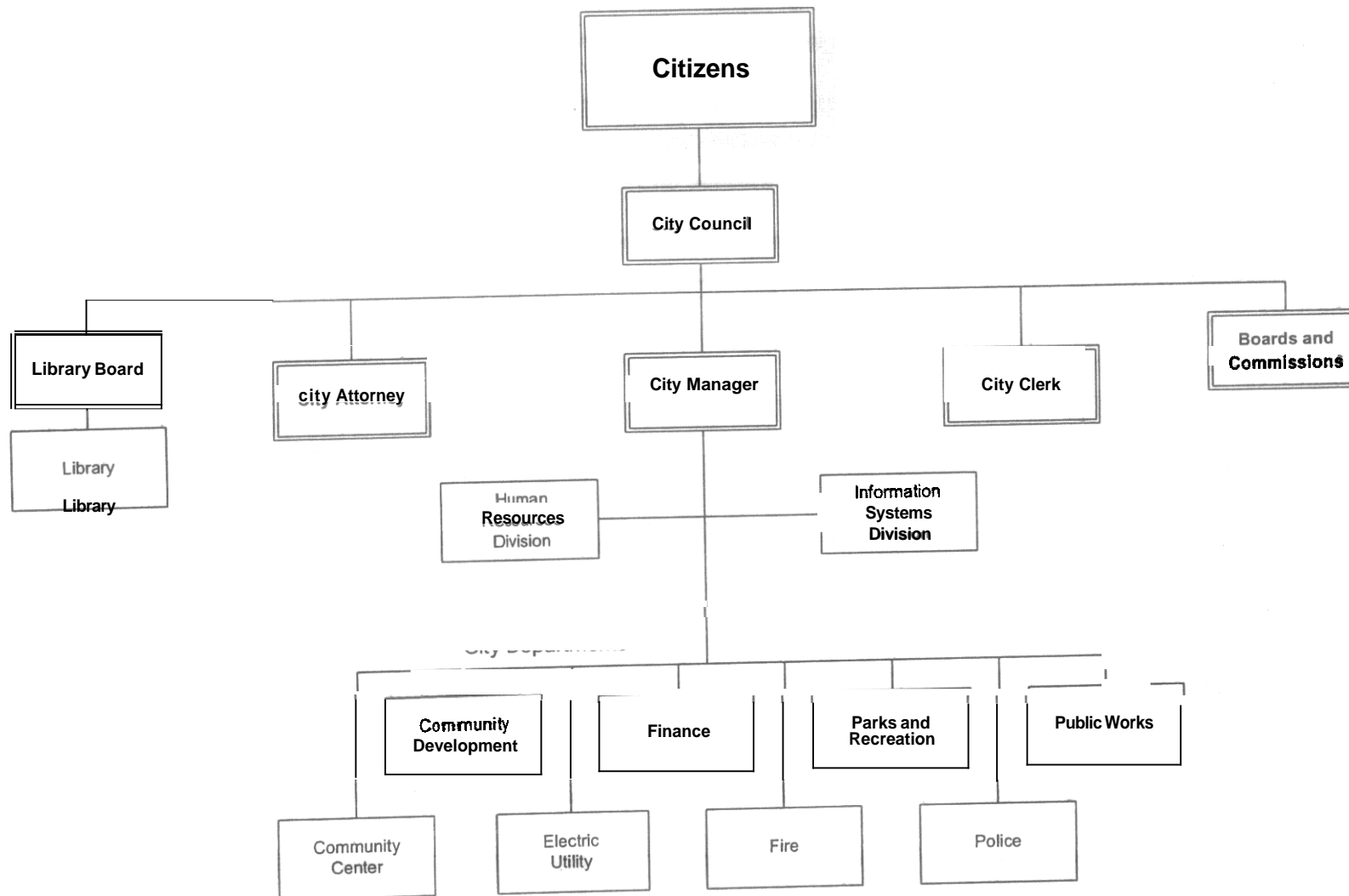
*Nancy L. Ziehl*

President

*Jeffrey R. Enos*

Executive Director

# City of Lodi



## DIRECTORY OF OFFICIALS AND ADVISORY BODIES

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### CITY COUNCIL

John Beckman  
Susan Hitchcock  
Larry Hansen  
Bob Johnson  
Joanne Mounce

Mayor  
Mayor Pro Temp  
Council Member  
Council Member  
Council Member

### ADVISORY BODIES

Planning Commission  
Library Board  
Recreation Commission  
Site Plan and Architectural Review Committee

Eastside Improvement Committee  
Lodi Arts Commission  
Youth Commission  
Lodi Senior Citizens' Commission

### PRINCIPAL ADMINISTRATIVE OFFICERS

Blair King  
Steve Schwabauer  
Susan Blackston  
Nancy Martinez  
James Krueger  
Mike Pretz  
Tea Silvestre  
Richard Prima  
David Dockham  
Randy Hatch  
Jerry Adams  
Tony Goehring

City Manager  
City Attorney  
City Clerk  
Library Services Director  
Finance Director/Treasurer  
Fire Chief  
Community Center Director  
Public Works Director  
Interim Electric Utility Director  
Community Development Director  
Police Chief  
Parks & Recreation Director

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## FINANCIAL SECTION

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The Financial Section is comprised of the Independent Auditors' Report, Management Discussion and Analysis, Basic Financial Statements, including the notes, required Supplementary Information, and Supplementary Information which includes Combining and Individual Fund Statements and Schedules.





## MACIAS GINI & COMPANY<sup>LLP</sup>

3000 S Street, Ste. 300  
Sacramento, California 95816

916.928.4600 PHONE  
916.928.2755 FAX

The Honorable Members of City Council  
City of Lodi, California

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lodi, California (City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated January **25, 2006** on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that ~~report~~ is to describe the scope of our ~~testing~~ of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, the schedule of funding progress – pension plan, and schedules of revenues, expenditures and changes in fund balance – budget and actual – for the General Fund and Streets Fund are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

~~Our~~ audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund statements, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias Gini & Company LLP

Certified Public Accountants

Sacramento, California  
January 25, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Comprehensive Annual Financial Report is presented as discussion and analysis of the financial performance of the City of Lodi (the City) for the fiscal year ended June 30, 2005.

### FINANCIAL HIGHLIGHTS

- The assets of the City of Lodi exceeded its liabilities at the close of the 2005 fiscal year by \$188,421,402 (net assets). Of this amount, \$3,585,970 is a deficit (unrestricted net assets), needed to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$26,622,911 in fiscal year 2005.
- As of June 30, 2005, the City's governmental funds reported combined ending fund balances of \$14,684,103, an increase of \$3,199,356 in comparison with the prior year. Of this amount, \$8,556,623 is available for spending at the City's discretion (unreserved fund balance).
- At the close of the fiscal year, fund balance for the general fund was \$2,692,330 or 6.3 % of total general fund expenditures of \$42,862,827.
- The City's total long-term debt decreased by \$21,223,169 (11.3%) during the current fiscal year. The key factor in this decrease was the forgiveness of the Environmental Abatement Program bonds in the Water Fund.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) Government-wide financial statements, (2) Fund financial statements, and (3) Notes to the Financial Statements. This report also includes other supplementary information in addition to the basic financial statements.

#### Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through users fees and charges (business-type activities). The governmental activities of the City include general government, public protection, public works, library, and parks and recreation. The business-type activities of the City include electric operations, wastewater system, water operations and public transit.

### Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. **All** of the funds of the City can be divided into the following three categories: Governmental funds, Proprietary funds, and Fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in governmental funds. These statements, however, focus on (1) how cash and other financial assets can readily be converted to available resources and (2) the balances left at year-end that are available for spending. Such information may be useful in determining financial resources available in the near future to finance City programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds organized according to their type (special revenue, capital projects and debt service). Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund and the streets fund, which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form Of combining statements elsewhere in this report.

The City adopts an annual budget for its general fund and special revenue funds. Budgetary comparison statements have been provided for the general fund and the special revenue funds to demonstrate compliance with this budget.

**Proprietary Funds.** Proprietary funds are generally used to account for services for which the City charges customers-either outside customers, or internal units or departments of the City. Proprietary funds provide the same type of information as shown in the **government-**wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the Electric, Wastewater, Water, all of which are considered to be major funds and the Transit system, which is considered to be a nonmajor proprietary fund.
- Internal Service fund is used to report activities that account for various employee benefits and self-insurance activities of the City. Because these activities predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The activities of the Downtown and Cherokee Lane special assessments, the Industrial Way-Beckman special assessment and various landscape and lighting districts are accounted for and reported under the fiduciary funds. The activities of the Private Sector trust and the Holz bequest are also accounted for under the fiduciary funds. Since the resources of this fund are not available to support the City's own programs, it is not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds,

### Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees, and a schedule comparing budget to actual amounts in the General Fund and Streets Fund.

### Combining Statements

The combining statements in connection with non-major governmental funds and fiduciary funds are presented immediately following the required supplementary information on pensions.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

**As** noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City of Lodi assets exceeded liabilities by \$188,421,402 at the close of the current **fiscal** year.

The largest portion of the City's net assets reflects its investment in capital assets net of any associated depreciation (e.g., land, buildings and improvements, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Lodi's Net Assets

		Governmental Activities		Business-type Activities'		Total	
		<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Assets:							
Current and other assets	\$	23,020,354	18,935,593	83,430,392	109,272,639	\$ 106,450,746	128,208,232
Capital assets		133,148,186	128,334,732	125,103,772	113,895,765	258,251,958	242,230,497
Total assets		156,168,540	147,270,325	208,534,164	223,168,404	364,702,704	370,438,729
Liabilities:							
Long-term liabilities outstanding		41,302,639	41,002,293	124,657,175	146,180,690	165,959,814	187,182,983
Other liabilities		3,908,832	3,750,597	6,412,656	17,706,658	10,321,488	21,457,255
Total liabilities		45,211,471	44,752,890	131,069,831	163,887,348	176,281,302	208,640,238
Net assets:							
Invested in capital assets, net of related debt		106,292,681	100,749,086	67,667,955	64,214,183	173,960,636	164,963,269
Restricted		13,465,723	11,205,788	2,350,888	2,577,822	15,816,611	13,783,610
Unrestricted		(8,801,335)	(9,437,439)	7,445,490	(7,510,949)	(1,355,845)	(16,948,388)
Total net assets	\$	110,957,069	102,517,435	77,464,333	59,281,056	\$ 188,421,402	161,798,491

An additional portion of the City's net assets, \$15,816,611 (8.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets represents a deficit of \$1,355,845. At the end of the current fiscal year, the City is able to report positive balances in two of the three categories of net assets for the government as a whole. Unrestricted net assets are negative for the governmental activities. The deficit in unrestricted net assets in the governmental activities at the end of the year was \$8,801,335 caused primarily by the accrual of compensated absences of \$9,307,134 and the inclusion of the internal service fund in the governmental activities that had negative net assets of \$1,895,488.

Refer to pages 8-9 for analysis of the business-type activities and internal service fund negative unrestricted net assets.



City of Lodi's Changes in Net Assets

	Governmental		Business-type		Total	
	Activities		Activities			
	<u>2005</u>	2004	2005	<u>2004</u>	2005	2004
Revenues						
Program revenues:						
Charges for services	\$ 5,604,193	4,828,330	70,046,788	65,709,989	\$ 75,650,981	70,538,319
Operating grants and contributions	2,194,994	2,321,453	2,730,943	2,547,266	4,925,937	4,868,719
Capital grants and contributions	17,558,575	13,893,743	3,401,579	8,268,229	20,960,154	22,161,972
General revenues:						
Properly taxes	7,124,388	7,787,535			7,124,388	7,187,535
Other taxes	10,252,443	9,571,855			10,252,443	9,571,855
Grants and contributions not restricted to specific programs	13,192,542	11,895,689			13,192,542	11,895,689
Litigation -environmental lawsuits proceeds			9,149,692	864,834	9,149,692	864,834
Other	<u>758,278</u>	<u>714,940</u>	<u>4,312,412</u>	<u>4,876,811</u>	<u>5,070,690</u>	<u>5,591,751</u>
Total revenues	<u>56,685,413</u>	<u>50,413,545</u>	<u>89,641,414</u>	<u>82,267,129</u>	<u>146,326,827</u>	<u>132,680,674</u>
Expenses						
General government	9,957,816	13,166,925			9,957,816	13,166,925
Public protection	22,252,819	19,162,270			22,252,819	19,162,270
Public works	12,376,743	11,867,698			12,376,743	11,867,698
Library	1,464,470	1,409,413			1,484,470	1,409,413
Parks and recreation	4,565,240	4,095,367			4,565,240	4,095,367
Interest on long-term debt	1,616,501	1,267,017			1,616,501	1,267,017
Eteclric			57,308,243	55,942,822	57,308,243	55,942,822
Wastewater			10,652,509	6,297,010	10,652,509	6,297,010
Water			11,748,462	7,488,844	11,748,462	7,488,844
Transit			<u>3,017,821</u>	<u>3,064,298</u>	<u>3,017,821</u>	<u>3,064,298</u>
Total expenses	<u>52,253,589</u>	<u>50,968,690</u>	<u>82,727,035</u>	<u>72,792,974</u>	<u>134,980,624</u>	<u>123,761,664</u>
Changes in net assets before special items and transfers	4,431,824	(555,145)	6,914,379	9,474,155	11,346,203	8,919,010

Special item –forgiveness of debt			15,276,708		15,276,708	
Transfers	4,007,810	2,914,914	(4,007,810)	(2,914,914)		
Changes in net assets	8,439,634	2,359,769	18,183,277	6,559,241	26,622,911	8,919,010
Net assets at beginning of year	102,517,435	100,157,666	59,281,056	52,721,815	161,798,491	152,879,481
Net assets at end of year	\$ 110,957,069	102,517,435	77,464,333	59,281,056	\$ 188,421,402	161,798,491

#### ANALYSIS OF CHANGES IN NET ASSETS

##### Governmental activities.

Governmental activities increased the City's net assets by \$8,439,634. This reflects the increase in charges for services, \$ 775,863; capital grants and contributions of \$3,664,832; increases in general revenues of \$1,957,632 and transfers of \$1,092,896; offset by a decrease in operating grants and contributions of \$126,459 and increase in expenses of \$1,284,899.

##### Business-type activities.

Business-type activities increased the City's net assets by \$18,183,277. This reflects primarily the receipt of a number of settlements from third parties in connection with the PCE/TCE litigation amounting to \$9,149,692 and the settlement of the \$15.625 million Environmental Abatement Program bonds plus accrued interest of \$5.65 million with Lehman Brothers for \$6.0 million resulting in a forgiveness of debt (special item)

#### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

##### Governmental Funds.

The focus of the City of Lodi's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$14,684,103, an increase of \$3,199,356 in comparison to the prior year.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,506,926, while total fund balance was \$2,692,330, an increase of \$1,239,342 from prior year. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 3.5% of total general fund expenditures.

##### Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail

Unrestricted net assets at the end of the year for the Electric Fund were \$2,459,806, Wastewater Fund \$1,962,812 and the Water Fund \$2,792,517. The unrestricted net assets of the Water Fund increased by \$22,364,870 compared to prior year as a result of settlements

received by the City from defendants of the PCE/TCE litigation and from the forgiveness of debt obtained via a settlement of the Environmental Abatement Program bonds issued through Lehman Brothers.

The Internal Service Fund is reporting a deficit in unrestricted net assets as a result of the City not fully funding its self-insurance activities. The City plans to implement the deficit reduction plan recommended by an actuary to gradually eliminate the deficit in the Internal Service Fund.

Other factors concerning the finances of these funds are discussed in the City of Lodi's business-type activities.

#### General Fund Budgetary Highlights

Significant differences between the original operating budget and the final amended operating budget in the General Fund were a net increase in appropriation of \$4,691,847, a decrease in transfers out of \$4,664,782, and a decrease in other financing sources of \$837,327 primarily due to the change in budgeting employee benefits and insurances. The increase in appropriations can be briefly summarized as follows:

- \$817,624 increase in general government
- \$2,524,547 increase in public protection
- \$769,672 increase in public works
- \$145,141 increase in library
- \$434,863 increase in parks and recreation

The \$124,478 in capital outlay was for the improvements made to the Accordia Building leased by the City for the use of the Finance department.

Significant differences between the final budget and the actual revenues and expenditures can be briefly summarized as follows:

- Taxes – a favorable variance of \$321,902 includes an increase in property taxes of \$123,107, real property transfer taxes of \$168,611 and \$30,184 of other taxes compared to estimated revenues.
- Licenses and permits - a favorable variance of \$925,065 was the result of increased building permit fees, plumbing permits, electrical permits and mechanical permits amounting to \$761,375; business license fees were higher than expected by \$147,721; and \$15,969 in various other licenses and permits.
- Intergovernmental revenues – a favorable variance of \$1,235,877 was due to the receipt of deferred Vehicle License Fees in the amount of \$991,063 and an increase in various grants in the amount of \$244,814.
- Charges for services exceeded estimated revenues by \$702,074 as a result of new and increased police fees, fire fees, engineering fees, community center fees, and parks and recreation fee increases implemented during the year.
- Fines, forfeits and penalties- the implementation of increased fees for returned checks and late fees resulted in a positive variance of \$363,335.

- For expenditures, there was a favorable variance between the final budget and actual expenditures of \$1,089,575. Factors contributing to this difference are the following: Full time salaries budgeted at E (top) step, employee participation in the voluntary time off program, position vacancies, and the continued overall effort to reduce spending and costs.

#### Capital Assets and Debt Administration

##### Capital assets.

The City of Lodi's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to \$258,251,958 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, vehicles, infrastructure and construction in progress. The total increase in the City of Lodi's investment in capital assets for the current fiscal year was 6.6% (a 3.8% increase in governmental activities and a 9.6% increase in business-type activities) as shown in the table below.

##### Changes in Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 23,798,811	\$ 23,798,811	\$ 5,247,806	\$ 5,247,806	\$ 29,046,617	\$ 29,046,617
Buildings and Improvements	40,323,027	41,026,803	27,253,059	24,902,110	67,576,086	65,928,913
Machinery and Equipment	1,257,056	1,797,112	69,865,611	62,823,423	71,122,669	64,620,535
Vehicles	2,251,552	2,487,373	2,430,020	2,403,851	4,681,572	4,891,224
Infrastructure	61,081,916	55,464,893			61,081,916	55,464,693
Work of Art	62,024	62,024			62,024	62,024
Construction in Progress	4,373,796	3,697,716	20,307,276	18,518,575	24,681,074	22,216,291
Total	\$ 133,148,186	\$ 128,334,732	\$ 125,103,772	\$ 113,895,765	\$ 258,251,958	\$ 242,230,497

A significant increase in infrastructure compared to prior year was primarily due to additional streets built by residential development. The increase in machinery and equipment and construction in progress in wastewater was due primarily to improvements to the White Slough Water Pollution Control Facility.

Additional information on the City of Lodi's capital assets can be found in note 6 on pages 40-42 of this report.

Long-term debt.

At the end of the current fiscal year, the City of Lodi had total bonded debt outstanding of \$145,077,626. Of this amount, \$25,030,000 is the outstanding balance of the bonds issued to fund the new public safety building, refinancing of the performing arts center and the downtown and Cherokee Lane improvements. The total of \$120,047,626 from the business-type activities consists of \$41,383,217 for the Wastewater Fund; and \$78,664,409 for the Electric Fund.

City of Lodi's Outstanding Debt

	Governmental <u>activities</u>	Business-type <u>activities</u>	Total
Certificates of Participation	\$ 25,030,000	120,047,626	145,077,626

The City of Lodi's total bonded debt decreased by \$22,349,851 (13.3%) during the current fiscal year. The key factor in this decrease was the settlement of the \$15,625,000 Environmental Abatement Certificates of Participation in the Water Fund pertinent to the groundwater contamination.

Additional information on the City of Lodi's long-term debt can be found in note 8 on pages 43-55 of this report.

Economic factors and next year's budget.

The City faced significant budget challenges in the last two fiscal years. As a result of downward economic trends and personnel expenditures, which were increasing at a pace that outstripped the resources available to fund these expenditures, the City faced an operating deficit in the General Fund for fiscal year 2004-05. In order to eliminate this projected deficit, planned expenditures were reduced by approximately \$1.9 million and property tax revenues of approximately \$1.9 million (originally planned to be used for repayment of debt service) were shifted to the General Fund. Additionally, the City received \$991,063 of deferred Vehicle License Fees from the State in 2004-05 that were not to be realized until August 2006.

The 2005-06 budget process was embarked upon in January 2005. Expenditure reductions and revenue increases resulted in a balanced General Fund budget for 2005-06. All departments accounted in the General Fund reduced budgeted expenditures in order to balance the fiscal year 2005-06 budget.

The Electric Utility budget for 2005-06 was adopted with expenditures exceeding revenues by approximately \$8.2 million. Most of this deficit will be alleviated through a combination of rate increases approved by resolution of the City Council in November 2005. In addition, vacancies and reductions in operational expenditures will help reduce most of this deficit. However, the Electric Utility will still incur an operating loss in fiscal year 2005-06. Burgeoning energy purchase costs, which have risen from approximately \$33.5 million in 2004-05 to a revised budget of \$42.1 million in 2005-06, are the main reason for this deficit. The rate increases approved in November 2005, will result in more than \$10 million in additional revenues in fiscal year 2006-07 and subsequent years. The rate increases in conjunction with other cost cutting measures will be used to build cash balances in fiscal year 2006-07.

## REQUEST FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Accounting Division of the Finance Department of the City of Lodi at 300 W. Pine Street, Lodi, California, 95240.



## BASIC FINANCIAL STATEMENTS

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The Government-wide Financial Statements provide a broad overview of the City's **financial** position and operating **results**. **Information** is grouped by governmental activities or business-type activities.

The Fund Financial Statements report information about the City's Governmental Funds, Proprietary Funds, and the Fiduciary Fund

The notes have an integral role in disclosing **information** essential to the fair presentation of the Basic Financial Statements.





GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**CITY OF LODI**  
**STATEMENT OF NET ASSETS**  
June 30, 2005

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and investments	\$ 13,635,382	9,781,616	\$ 23,416,998
Restricted assets	1,690,573	28,421,893	30,112,466
Accounts receivable, net	3,323,927	6,375,074	9,699,001
Property tax receivable	1,604,552		1,604,552
Interest receivable	127,780	45,334	173,114
Internal balances	(1,225,173)	1,225,173	
Due from other governmental agencies	2,650,301	1,698,235	4,348,536
Loan receivable	1,084,000		1,084,000
Advance receivable		1,955,896	1,955,896
Inventory	106,954	2,056,996	2,163,950
Other assets	22,058	6,966	29,024
Deferred charges		31,863,209	31,863,209
Capital assets, net:			
Nondepreciable	28,234,633	25,555,082	53,789,715
Depreciable, net	104,913,553	39,548,690	144,462,243
<b>TOTAL ASSETS</b>	<u>156,166,540</u>	<u>208,534,164</u>	<u>364,702,704</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	2,373,914	4,322,207	6,696,121
Accrued salaries and wages	1,243,875		1,243,875
Accrued interest	291,043	848,008	1,139,051
Unearned revenue		1,242,441	1,242,441
Long-term liabilities:			
Due within one year	5,012,337	4,181,989	9,194,326
Due in more than one year	36,290,302	120,475,186	156,765,488
<b>TOTAL LIABILITIES</b>	<u>45,211,471</u>	<u>131,069,831</u>	<u>176,281,302</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	106,292,681	67,667,955	173,960,636
Restricted for:			
Capital projects	11,382,725		11,382,725
Debt service	1,690,573	2,278,191	3,968,764
Other purposes	392,425	72,697	465,122
Unrestricted (deficit)	(8,801,335)	7,445,490	(1,355,845)
<b>TOTAL NET ASSETS</b>	<u>\$ 110,957,069</u>	<u>\$ 77,464,333</u>	<u>\$ 188,421,402</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF LODI**  
**STATEMENT OF ACTIVITIES**  
Year ended June 30, 2005

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
<b>PRIMARY GOVERNMENT:</b>						
Governmental activities:						
General government	\$ 9,957,816	3,638,762	37,487	839,601	(5,441,966)	\$ (5,441,966)
Public protection	22,252,819	622,905	742,183	716,944	(20,170,787)	(20,170,787)
Public works	12,376,743	460,829	1,140,654	13,813,992	3,038,732	3,038,732
Library	1,484,470	48,536	109,030		(1,326,904)	(1,326,904)
Parks & recreation	4,565,240	833,161	165,640	2,188,038	(1,378,401)	(1,378,401)
Interest on long-term debt	1,616,501				(1,616,501)	(1,616,501)
Total governmental activities	52,253,589	5,604,193	2,194,994	17,558,575	(26,895,827)	(26,895,827)
Business-type activities:						
Electric	57,308,243	53,908,133		1,044,279		(2,355,831)
Wastewater	10,652,509	8,085,728		799,214		(1,767,567)
Water	11,748,462	7,713,343		483,400		13,551,719
Transit	3,017,821	339,584	2,730,943	1,074,686		1,127,392
Total business-type activities	82,737,035	70,046,788	2,730,943	3,401,579	(6,547,725)	(6,547,725)
Total primary government	\$ 134,990,624	75,650,981	4,925,937	20,960,154	(26,895,827)	(6,547,725)
General revenues:						
Taxes:						
Property taxes					7,124,388	7,124,388
Franchise taxes					8,917,504	8,917,504
Business license tax					982,486	982,486
Transient occupancy tax					352,453	352,453
Grants and contributions not restricted to specific programs					13,192,542	13,192,542
Investment earnings					150,258	1,879,760
Litigation - environmental/lawsuits proceeds						9,149,692
Other					608,020	2,432,652
Special item - forgiveness of debt						15,276,708
Transfers					4,007,810	(4,007,810)
Total general revenues, special item and transfers					35,335,461	24,731,002
Change in net assets					8,439,634	18,183,277
Net assets, beginning of year					102,517,435	59,281,056
Net assets, end of year					\$ 110,957,069	\$ 77,464,333

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

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## FUND FINANCIAL STATEMENTS

### **Governmental Fund Types**

Governmental funds consist of the General Fund, special revenue funds, debt service fund and capital projects funds.

#### **Major Governmental Funds include:**

##### **General Fund**

This fund is maintained to account for all financial resources that are not restricted as to their use. This includes property and sales taxes, business tax receipts, franchise taxes and various subventions such as Motor Vehicle In-Lieu fees received from the State of California. With the exception of grant programs, General Fund resources can be utilized for any legitimate governmental purpose.

##### **Streets Fund**

This fund was established to account for the following:

##### **Gas Tax**

To account for revenues and expenditures apportioned to the City under the Streets and Highway Code. Portions of the tax rate levied by the State of California on all gasoline purchases are allocated to cities throughout the State on a population basis. These funds are restricted for expenditure by the State of California for street related purposes only.

##### **Development Impact Mitigation Fees**

To account for impact fees charged to provide for the building of various storm drains and street improvements needed to serve new development. The fees are calculated on a per acre basis and are collected at subdivision final map approval or with building permit stage effective November 4, 1991.

#### Measure K Sales Tax

To account for revenues and expenditures apportioned to the City for sales tax collections under Measure K. Expenditures for administration, maintenance and construction must be for street-related projects.

#### **Intermodal** Surface Transportation Efficiency Act (ISTEA)

To account for revenues from the federal highway administration for programs including surface transportation program (STP) for streets and roads, congestion mitigation and air quality program (CMAQ) and hazard elimination safety (HES) for street lighting projects.

#### Proprietary Fund Types

Proprietary funds consist of the enterprise funds and the internal service funds

Major Enterprise Funds include:

##### Electric Fund

The City established this fund in order to account for the provision of electric services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including but not limited to, source of supply, overhead, systems maintenance, customer service, engineering, administration, **capital** improvements maintenance and debt service.

##### Sewer Fund

This fund was established by the City in order to account for the provision of waste water collection and treatment services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, **but** not limited to, administration, operations, maintenance, improvements and debt service.

##### Water Fund

This fund was established by the City in order to account for the provision of water to the residents of the City as well as some customers in the County. All activities to provide such services are accounted for in this fund,



including, but not limited to administration, operations, distribution, maintenance, capital improvements and debt service.

**Nonmajor Enterprise Fund:**

**Transit Fund**

This fund is used to account for the operations of the Dial-A-Ride and the Grapeline bus system.

**Fiduciary Fund Type**

**Private-purpose Trust Fund**

This fund is used to account for trust agreements under which the principal and income benefit individuals, private organizations or other governments.

**Agency Fund**

This fund was established to account for special assessments collected on the property tax roll by the City on behalf of the property owners within the IndustrialWay Beckman Districts and the Downtown and Cherokee Lane Districts and various landscape and lighting districts around the City.

**CITY OF LODI  
BALANCESHEET  
GOVERNMENTAL FUNDS  
June 30,2005**

	General Fund	Streets Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and mvestments	\$ 601.048	3,607,519	6,165,396	\$ 10,373,963
Restricted assets			1,690,573	1,690,573
Receivables:				
Accounts, net	3,030,774	256.533	1,233	3,288,540
Properly taxes	1,604,552			1,604,552
interest	1,569	31,362	70.221	103.152
Due from other funds		507,515	18,972	526,487
Due from other governmental agencies	166.149	1,555,180	928.972	2,650,301
Loan receivable			1,084,000	1,084,000
Inventory	106,954			106.954
Advances to other funds	250.960		676.770	927.730
Other assets	12.736			12.736
Total assets	\$ 5,774,742	5,958,109	10,636,137	\$ 22,368,988
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and other liabilities	\$ 1,838,537	306.603	142.530	\$ 2,287,670
Accrued salaries and wages	1,243,875			1,243,875
Due to other funds			526.487	526.487
Advances from other funds		676,770	1,476,133	2,152,903
Deferred revenue			1,473,950	1,473,950
Total liabilities	3,082,412	983.373	3,619,100	7,684,885
<b>Fund balances :</b>				
Reserved	1,185,404	3,965,554	976.522	6,127,480
Unreserved reported in:				
General Fund	1,506,926			1,506,926
Special revenue funds		1,009,182	390.745	1,399,927
Capital projects funds			5,649,770	5,649,770
Total fund balances	2,692,330	4,974,736	7,017,037	14,684,103
Total liabilities and fund balances	\$ 5,774,742	5,958,109	10,636,137	\$ 22,368,988

The notes to the financial statements are an integral part of this statement.

CITY OF LODI  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS**  
 June 30, 2005

Amounts reported for governmental activities in the statement of net assets are different because:

Fund balances - total governmental funds	\$ 14,684,103
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	
Nondepreciable capital assets	28,234,633
Depreciable capital assets, net	104,913,553
Long-term liabilities are not due and payable in the current period and therefore are not reported in <i>the</i> governmental funds <b>as</b> follows:	
Compensated absences	(9,307,134)
Bonds payable and other long-term debt	(26,855,505)
Interest on long-term debt is not accrued in the <b>funds</b> , but rather is recognized as an expenditure when due	(291,043)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	1,473,950
Internal service funds are used by management to charge the costs of general liability insurance, workers' compensation insurance, <del>health</del> health benefits insurance and other insurance to individual funds. The assets of the internal service funds are included in governmental activities in the statement of net assets	(1,895,488)
Net assets of governmental activities	\$ <u><u>110,957,069</u></u>

The **notes to the financial statements** are an integral part of this **statement**.

CITY OF LODI  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year ended June 30, 2005

	General Fund	Streets Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 16,698,748	907,115		\$ 17,605,863
Licenses and permits	2,511,180			2,511,180
Intergovernmental revenues	14,419,838	7,280,090	1,134,109	22,834,037
Charges for services	2,646,094	2,983,959	3,773,974	9,404,027
Fines, forfeits and penalties	1,186,280		3,700	1,189,980
Investment and rental income	338,920	129,899	283,513	752,332
Miscellaneous revenue	174,375	24,670	259,135	458,180
Total revenues	<u>37,975,435</u>	<u>11,325,733</u>	<u>5,454,431</u>	<u>54,755,599</u>
Expenditures:				
Current:				
General government	10,857,842			10,857,842
Public protection	20,044,101		306,255	20,350,356
Public works	6,429,372		931,939	7,361,311
Library	1,420,257			1,420,257
Parks and recreation	3,671,803		18,972	3,690,775
Capital outlay	124,478	7,535,027	1,848,437	9,507,942
Debt service:				
Interest and fiscal charges	48,475		1,596,954	1,645,429
Principal payments	266,499		588,120	854,619
Total expenditures	<u>42,862,827</u>	<u>7,535,027</u>	<u>5,290,677</u>	<u>55,688,531</u>
Excess (deficiency) of expenditures over (under) revenues	<u>(4,887,392)</u>	<u>3,790,706</u>	<u>163,754</u>	<u>(932,932)</u>
Other financing sources (uses):				
Transfers in	8,043,184	5,204	1,968,981	8,017,369
Transfers out	(40,928)	(1,541,147)	(2,427,484)	(4,009,559)
Capital lease proceeds	124,478			124,478
Total other financing sources (uses)	<u>6,126,734</u>	<u>(1,535,943)</u>	<u>(458,503)</u>	<u>4,132,288</u>
Net change in fund balances	1,239,342	2,254,763	(294,749)	3,199,356
Fund balances, beginning of year	<u>1,452,988</u>	<u>2,719,973</u>	<u>7,311,786</u>	<u>11,484,747</u>
Fund balances, end of year	<u>\$ 2,692,330</u>	<u>4,974,736</u>	<u>7,017,037</u>	<u>\$ 14,684,103</u>

The notes to the financial statements are an integral part of this statement

CITY OF LODI  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
Year ended June 30, 2005

Amounts reported for governmental activities are different because:

Net change in fund balances, total governmental funds	\$	3,199,356
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays, capital contributions and depreciation expense are as follows:

Capitalized capital outlays		9,507,942
Capital contributions		2,546,016
Depreciation expense		(7,127,520)
Book value on disposed capital assets		(1,129,844)

Long-term debt proceeds, net of discounts, provide current financial resources to governmental funds, but issuing debt proceeds increases long-term liabilities in the statement of net assets. Repayments of the principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets.

Proceeds from capital lease		(124,478)
Repayments of principal are as follows:		
Capital leases		268,499
Certificates of participation principal		500,000
Loan principal		88,120

Internal service funds are used by management to charge the costs of certain activities, such as health benefits and self-insurance, to individual funds. The net revenue (expenses) of internal service funds is reported with governmental activities.

1,682,444

Deferred revenues recognized in the funds that were previously recognized in the statement of activities

(618,202)

Other expenses in the statement of activities that do not use current financial resources are not reported as expenditures in the governmental funds.

Change in compensated absences		(1,398,487)
Change in accrued interest		28,928

Change in net assets of governmental activities	\$	8,439,634
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CITY OF LODI  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2005

	Business-type Activities-Enterprise Funds					Governmental Activities - Internal Service Fund
	Electric	Wastewater	Water	Nonmajor Fund Transit	Total	
<b>ASSETS</b>						
Current assets:						
Cash and investments	\$ 4,896,603	584,922	4,300,091		\$ 9,781,616	\$ 3,261,419
Restricted assets	11,873,387	16,247,795	300,711		28,421,893	
Receivables:						
Accounts, net	4,381,969	1,078,453	518,605	396,047	6,375,074	35,387
Interest	12,989	19,137	13,208		45,334	24,628
Due from other funds		1,688,947			1,688,947	
Due from other governmental agencies				1,698,235	1,698,235	
Advance receivable	1,955,896				1,955,896	
Inventory	1,867,609	11,549	177,838		2,056,996	
Other assets	228	5,145	1,593		6,966	9,522
Total current assets	24,989,581	19,635,948	5,312,046	2,094,282	52,030,957	3,330,756
Noncurrent assets:						
Advances to other funds			1,225,173		1,225,173	
Deferred charges and other assets	31,037,785	825,444			31,863,209	
Capital assets, net:						
Nondepreciable	3,989,765	19,864,643	840,030	860,644	25,555,082	
Depreciable, net	34,544,401	35,137,698	18,153,648	11,712,943	99,548,690	
Total capital assets	38,534,166	55,002,341	18,993,678	12,573,587	125,103,772	
Total noncurrent assets	69,571,931	55,827,785	20,218,651	12,573,587	158,192,154	
TOTAL ASSETS	94,560,612	75,463,733	25,530,697	14,667,869	210,223,111	3,330,756
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable and other liabilities	995,350	659,223	2,507,305	160,329	4,322,207	86,244
Accrued interest	192,953	823,610	18,564	12,861	848,008	
Due to other funds				1,688,947	1,688,947	
Unearned revenue		74,223	1,168,218		1,242,441	
Self-insurance liability						1,592,805
Accrued compensated absences	390,403	207,506	14,241	1,770	813,917	
Certificates of participation payable	2,126,946	1,285,904			3,414,852	
Water note payable			153,220		153,220	
Total current liabilities	3,707,651	2,850,466	3,681,548	1,863,927	12,283,592	1,679,049
Noncurrent liabilities:						3,547,195
Self-insurance liability					1,765,507	
Accrued compensated absences	1,042,910	686,223	36,374		116,632,774	
Certificates of participation payable	76,535,461	40,097,313			2,076,905	
Water note payable			2,076,905			3,547,195
Total noncurrent liabilities	77,578,371	40,783,536	2,113,279		120,475,186	
TOTAL LIABILITIES	81,286,022	43,634,002	5,974,827	1,863,927	132,758,778	5,226,244
<b>NET ASSETS (DEFICIT)</b>						
Invested in capital assets, net of related debt	10,738,367	27,592,448	16,763,553	12,573,587	67,667,955	
Restricted:						
Debt service	3,720	2,274,471			2,278,191	
Other purposes	72,697				72,697	
Unrestricted (deficit)	2,459,806	1,962,812	2,792,517	230,355	7,445,490	(1,895,488)
TOTAL NET ASSETS (DEFICIT)	15,274,590	31,829,731	19,556,070	12,803,942	77,464,333	(1,895,488)

The notes to the financial statements are an integral part of this statement.

CITY OF LODI  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**Year ended June 30, 2005**

	Business-type Activities - Enterprise Funds					Governmental Activities- Internal Service Fund
	Electric	Wastewater	Water	Nonmajor Fund Transit	TOW	
OPERATING REVENUES						
Charges for services	\$ 53,908,133	8,085,728	7,713,343	339,584	\$ 70,046,788	\$ 7,964,404
OPERATING EXPENSES						
Personnel services	5,397,010	2,338,247	971,238	87,043	8,791,538	351,251
Supplier materials and services	9,386,738	4,057,231	7,824,190	2,468,038	23,736,195	5,211,868
Utilities	33,194,132	635,100	720,902	51,739	34,901,873	
Depreciation and amortization	5,884,766	1,413,562	794,992	380,444	8,473,764	
Claims						1,224,805
TOTAL OPERATING EXPENSES	54,162,646	8,442,140	10,311,322	2,987,262	75,903,370	6,787,924
OPERATING INCOME (LOSS)	(254,513)	(356,412)	(2,597,979)	(2,647,678)	(5,856,582)	1,178,480
NONOPERATING REVENUES (EXPENSES)						
Investment income	1,275,248	583,759	40,753		1,879,760	54,381
Interest expense	(3,145,597)	(2,210,389)	(77,978)	(30,559)	(5,464,503)	
Rent		182,345	10,254	9,091	201,890	
Operating grants				2,730,943	2,730,943	
Loss from the disposition of capital assets			(1,359,162)		(1,359,162)	
Litigation-environmental lawsuits proceeds			9,149,692		9,149,692	
Other revenues	1,110,192	400,377	469,625	250,768	2,230,962	451,603
TOTAL NONOPERATING REVENUES (EXPENSES)	(760,157)	(1,063,888)	8,233,184	2,960,243	9,369,382	505,964
INCOME (LOSS) BEFORE SPECIAL ITEM, CAPITAL CONTRIBUTIONS AND TRANSFERS	(1,014,670)	(1,420,300)	5,835,205	312,585	3,512,800	1,682,444
Special item- forgiveness of debt			15,278,708		15,278,708	
Capital contributions	1,044,279	799,214	483,400	1,074,886	3,401,579	
Transfers in	70,385	8,154	8,152	13,764	100,455	
Transfers out	(2,519,548)	(873,645)	(693,673)	(221,199)	(4,108,265)	
Net special item, capital contributions and transfers	(1,404,884)	133,523	15,074,587	867,250	14,670,477	
Change in net assets	(2,419,554)	(1,286,777)	20,709,792	1,179,816	18,183,277	1,682,444
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	15,694,144	33,116,508	(1,153,722)	11,624,126	59,281,056	(3,577,832)
NET ASSETS (DEFICIT) - END OF YEAR	\$ 13,274,590	31,829,731	19,556,070	12,803,942	\$ 77,464,333	\$ (1,895,488)

**CITY OF LODI**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**Year ended June 30, 2005**

	Business-type Activities - Enterprise Funds					Governmental Activities- Internal Service Fund
	Electric	Wastewater	Water	Nonmajor Fund Transit	Total	
Cash flows from operating activities:						
Receipts from customers and users	I 54,313,303	11,163,761	8,223,187	4,824,298	I 78,524,549	I 8,803,549
Receipts from interfund services provided	397,725				397,725	(6,788,456)
Cash paid to suppliers for goods & services	(47,024,232)	(6,868,420)	(6,280,084)	(2,633,899)	(62,808,635)	(351,251)
Payments to employees	(5,157,258)	(2,092,582)	(976,691)	(90,385)	(8,316,916)	
Payments for interfund services provided	(1,737)	(608,241)	(691,266)	(32,175)	(1,333,441)	
Proceeds from litigation settlements			9,149,692		9,149,692	
Net cash provided by operating activities	2,527,801	1,594,516	9,424,816	2,067,839	15,614,974	1,663,842
Cash flows from noncapital financing activities:						
Receipt of due from other funds	3,579,002				3,579,002	
Receipt of advance to other funds	2,400,000		171,590		2,571,590	
Loaned to other funds		(1,688,947)			(1,688,947)	
Repaid to other funds				(1,890,055)	(1,890,055)	
Transfers in	70,385	8,154	6,152	13,764	100,455	
Transfers out	(2,519,548)	(673,845)	(693,673)	(221,199)	(4,108,265)	
Net cash provided by (used in) noncapital financing activities	3,529,839	(2,354,638)	(513,931)	(2,097,490)	(1,436,220)	
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(3,691,359)	(9,199,246)	(350,790)		(13,241,395)	
Fees received from developers		67,215	483,400		550,615	
Capital grants received				48,636	48,636	
Principal payments on debt	(5,895,000)	(540,000)	(494,866)		(6,929,866)	
Interest payments on debt	(3,540,985)	(1,909,319)	(5,733,110)	(28,076)	(11,211,490)	
Net cash provided by (used in) capital and related financing activities	(13,127,344)	(11,581,350)	(6,095,366)	20,560	(30,783,500)	
Cash flows from investing activities:						
Rent of City property		162,345	10,254	9,091	201,690	
Proceeds from sales and maturities of investments	4,326,193	7,623,626			11,949,819	
Interest on investments	1,293,027	551,474	32,087		1,876,610	33,595
Net cash provided by investing activities	5,619,220	8,337,467	42,341	9,091	14,028,119	33,595
Net increase (decrease) in cash and cash equivalents	(1,450,484)	(3,984,003)	2,857,860		(2,576,627)	1,697,437
Cash and cash equivalents, beginning of year	6,347,087	4,568,925	1,442,231		12,358,243	1,563,982
Cash and cash equivalents, end of year	\$ 4,896,603	584,922	4,300,091		I 9,781,616	\$ 3,261,419
Cash flows from operating activities:						
Operating Income (loss)	I (254,513)	(356,412)	(2,597,979)	(2,647,678)	\$ (5,856,582)	\$ 1,176,480
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation and amortization	5,884,766	1,413,562	794,992	380,444	8,473,764	
Operating grants				2,730,943	2,730,943	
Proceeds from litigation settlements			9,149,692		9,149,692	
Other revenues	1,110,192	400,377	469,625	250,768	2,230,962	451,603
Change in assets and liabilities:						
Decrease in accounts receivable	576,423	2,659,688	19,897	1,534,483	4,790,491	106,508
Increase in advance receivables	(884,937)				(884,937)	
Decrease in due from other governmental agencies		33,142	18,188	111,302	160,632	
(Increase) decrease in inventory	(24,640)	961	(15,460)		(39,139)	
Decrease in other assets	1,217	3,612	4,134	830	9,793	281,034
Increase (decrease) in accounts payable and other liabilities	(4,120,459)	(2,785,291)	1,589,180	(146,299)	(5,462,869)	16,217
Increase (decrease) in compensated absences	239,752	243,665	(5,453)	(3,342)	474,622	
Decrease in unearned revenue		(18,786)		(143,612)	(162,398)	
Decrease in self-insurance liability						(368,000)
Net cash provided by operating activities	I 2,527,801	1,594,516	9,424,816	2,067,839	\$ 15,614,974	\$ 1,663,842
<b>Noncash Investing, Capital and Financing Activities</b>						
Capital contributions	I 1,044,279	731,999		1,026,050	\$ 2,802,328	I 15,276,708
Special item - forgiveness of debt			15,276,708		15,276,708	
Cost of issuance paid from debt proceeds		128,647			128,647	
Book value of disposed capital assets			1,359,162		1,359,162	
Interest reinvested			19		19	

The notes to the financial statements are an integral part of this statement.



**CITY OF LODI**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
June 30, 2005

	Private-Purpose Trust Funds	Agency Fund
<b>ASSETS</b>		
Cash and Investments	\$ 694,327	\$ 390,802
Receivables:		
Special assessments		53,580
Interest		2,923
Other assets		1,283
<b>TOTAL ASSETS</b>	<b>694,327</b>	<b>448,588</b>
<b>LIABILITIES</b>		
Agency obligations		448,588
<b>TOTAL LIABILITIES</b>		<b>448,588</b>
<b>NET ASSETS</b>	<b>\$ 694,327</b>	

**CITY OF LODI**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**Year ended June 30,2005**

	Private-Purpose Trust Funds
ADDITIONS	
Investment and rental income	\$ 56,676
Total additions	<u>56,676</u>
DEDUCTIONS	
Current	
Library	<u>6,238</u>
Total deductions	<u>6,238</u>
CHANGE IN NET ASSETS	50,438
NET ASSETS, BEGINNING OF YEAR	643,889
NET ASSETS, END OF YEAR	<u><u>\$ 694,327</u></u>

The notes to the financial statements are an integral part of this statement.

## NOTES TO THE FINANCIAL STATEMENTS

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CITY OF LODI  
Notes to Basic Financial Statements  
June 30, 2005

**(I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) THE FINANCIAL REPORTING ENTITY**

The City of Lodi (City) was incorporated on December 6, 1906, as a municipal corporation under the General Laws of the State of California. The City operates under a Council-Manager form of government and provides the following services: general government, public works, public protection (police and fire), public utilities, library, parks and recreation.

The accounting policies of the City conform to generally accepted accounting principles (GAAP) as applicable to governments in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles.

An elected five-member council governs the City of Lodi. As required by GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The component units, although legally separate entities, are, in substance, part of the City's operations and therefore, their activities are blended with data of the City.

**Blended Component Units**

The blended component units of the City are as follows:

The Lodi Public Improvement Corporation (LPIC) was formed on April 26, 1988, for the purpose of rendering financial assistance to the City in the issuance of the 1988 Certificates of Participation (refunded by the issuance of the 1991 Certificates of Participation) to finance the expansion of the City's White Slough Pollution Control Facility, the 1995 and 1996 Certificates of Participation to finance the Central City Revitalization Projects and the Performing Arts/ Conference Center, (refunded by the issuance of the 2002 Certificates of Participation), the issuance of the 1999 Certificates of Participation to finance the Electric Systems improvements (refunded by the 2002 Certificates of Participation Series A) and the issuance of the 2004 Wastewater System Revenue Certificates of Participation Series A to provide funds to finance the costs of certain improvements to the wastewater collection, treatment and disposal system of the City.

The City Council constitutes the Board of Directors of LPIC. The funds of LPIC have been included in the Enterprise (Electric and Wastewater) Funds and in the other governmental funds in the accompanying basic financial statements.

The Lodi Financing Corporation (LFC) was formed on October 12, 1999, for the purpose of assisting the City with the financing of the costs of its environmental abatement program and enhancing the water supply of the City for the use, benefit and enjoyment of the citizens served by the City. The City Council is the Board of Directors of LFC. The funds of LFC are included in the Water Fund in the accompanying basic financial statements.

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

(b) Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the **non**-fiduciary activities of the primary government and its component units. For the most part the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities that rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

(c) Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, **regardless** of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grant and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as **soon** as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal year. **All** other revenues are considered to be available if they **are** generally collected within 120 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as **under** accrual accounting. However, debt **service** expenditures, as well as expenditures related to vacation, sick leave, claims and judgments, are recorded only when payment is due.

Property taxes, other local taxes, licenses, intergovernmental revenues, and interest associated with the current fiscal period are all considered susceptible to accrual and **so** have been recognized as revenues of the current fiscal period. **All** other revenues are considered to be measurable and available when the City receives cash.

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

The City reports the following major governmental fund:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

The Street Fund accounts for Gas Tax revenues apportioned to the City under the Streets and Highway Code, impact fees charged to provide for the building of various storm drains and street improvements needed to serve new developments, and to account for funds apportioned to the City for sales tax collections under Measure K.

The City reports the following major proprietary (enterprise) funds:

The Electric Fund accounts for the provision of electric Services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including but not limited to, source of supply, overhead, systems maintenance, customer service, engineering, administration, capital improvements, and maintenance and debt service.

The Wastewater Fund accounts for the provision of wastewater collection and treatment services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, improvements and debt service.

The Water Fund accounts for the provision of water to the residents of the City as well as some customers in the County. All activities to provide such services are accounted for in this fund, including, but not limited to administration, operations, distribution, maintenance, capital improvements and debt service.

Additionally, the City reports the following fund types:

The Internal **Service** Fund accounts for the City's claims and benefits

The fiduciary funds account for assets held in trust for other agencies.

Private-Purpose Trust Fund is used to account for trust agreements under which the principal and income benefit individuals, private organizations or other governments. This fund was established to account for assets held and invested by the Library Board as trustee. The Library can only spend the funds in accordance with the trust agreements.

Agency Fund accounts for assets held by the City as a trustee or as an agent for individuals, private organizations, related organizations and/or other governmental units. This fund was established to account for special assessments collected on the

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

property tax roll by the City on behalf of the property owners within the Industrial Way/Beckman Districts, the Downtown/Cherokee Lane Districts and various landscape and lighting districts around the City.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in both the business-type activities in the government-wide and the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. The City **also has** the option of the following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

The effect of **interfund** activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges to **other** City departments from the Electric, Wastewater, Water and Transit Funds. These charges have not been eliminated because elimination would distort the direct **costs** and program revenues reported in the statement of activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund and internal service fund are charges for customer services including: electric, wastewater, water and public transportation fees. Operating expenses for enterprise funds and internal service fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported **as** nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources **as** they are needed.

(d) Adoption **of** New Accounting Standards

The City adopted the provisions of **GASB** Statement **No. 40**, Deposit and Investment Risk Disclosures (an amendment **of** **GASB** Statement **No. 3**) ("**GASB 40**"). The adoption of **GASB 40** required the City to include a presentation of Deposit and Investment Risk Disclosures. The adoption of **GASB 40** did not have an impact on the City's financial statements.

(e) Cash and Investments

The City maintains a cash and investment pool that is available for all funds of the City for the purpose of increasing interest earnings through investment activities. Investments are generally stated at fair value with the exception of guaranteed investment contracts, which are stated at cost. Income earned or losses arising from the investment of pooled cash are allocated to various funds based on month-end cash balances in accordance with California Government Code Section 53647. Changes in fair value of investments are recognized **as** a component of interest and investment income.



CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

Proceeds from debt and other cash and investments held by fiscal agents by agreement are classified as restricted assets.

**(f) Restricted Assets**

In the Enterprise (Electric) Fund, restricted assets represent the proceeds of the 1999 Certificates of Participation held by the trustee for the planned improvements of the city electric systems. In the Capital Outlay Reserve Fund, the restricted assets represent the proceeds of the 2002 Improvement bonds reserved for debt service. In the Wastewater fund, the restricted assets represent the proceeds of the 20038 and the 2004A Certificates of Participation issued for improvements to the City's wastewater collection, treatment and disposal system. In the Water Fund, the restricted assets represent funds held by the attorneys in connection with the PCE/TCE litigation.

**(g) Property Taxes**

San Joaquin County is responsible for assessing, collecting and distributing property taxes in accordance with enabling legislation. Revenue received is based on an allocation factor calculated by the County under the provisions of Proposition 13 plus a percentage of the increase in market value in specific areas. The City's property tax is lien based on the assessed value listed as of the prior January 1st for all real and personal property located in the City. Property sold after the assessment date (January 1st) is reassessed and the amount of property tax assessed is prorated. The assessed value at January 1, 2003, upon which the 2004 levy was based, was \$4,096,649,000.

Secured property taxes are levied on October 1 and are due in two installments on November 1 and February 1. The tax becomes delinquent after December 10 and April 10, respectively. Unsecured property tax is levied on July 1, due on July 31 and becomes delinquent after August 31.

Property taxes levied for the year ended June 30, 2005, are recorded as receivables, net of estimated uncollectible amounts. Property taxes paid to the City by the County within 60 days of the fiscal year end are considered "available" and are, therefore, recognized as revenue.

In 1993, the City made an agreement with the San Joaquin County to participate in the Teeter Plan. The Teeter plan is an alternative method of apportioning property tax money. The cities receive 95% of the property taxes in advance from the County and the 5% remaining after reconciling the cities' balances at June 30. As part of the agreement, the County keeps the penalties and interest on the delinquent taxes.

**(h) Due From/Due To Other Funds and Internal Balances**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. In the fund financial statements, these receivables and payables are classified as "due from other funds" or "due to other funds." In the government-wide financial statements, these receivables and payables are eliminated within the governmental activities and business-type activities columns. Receivables and payables between the governmental activities and the business-type activities are classified as internal balances.

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

(i) Transfers

In the fund financial statements, interfund transfers are recorded as transfers in (out) except for transactions that are described below:

Charges for services are recorded as revenues of the performing fund and expenditures of the requesting fund. Unbilled costs are recognized as an asset of the performing fund at the end of fiscal year.

Reimbursements for expenditures, initially made by one fund that is properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as other revenue in the fund that is reimbursed. Reimbursements are eliminated for purposes of government-wide reporting.

(j) Long-term obligations

In the government-wide financial statements and in the proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Gains or losses occurring from advance refunding are deferred and amortized into expense for both governmental and business-type activities.

(k) Loan receivable

Loan receivable reported in the HOME Program & Community Development Block Grant Special Revenue Fund represent funds the City loaned to a developer for a low-income housing project. The City will receive principal and interest from the original loan in thirty years and can use it for allowable projects or to make new loans.

(l) Advance receivable

Advance receivable reported in the Enterprise Fund (Electric) represents the City's portion of the Northern California Power Agency's (NCPA) General Operating reserve that is refundable upon demand by the City. (See Note 13.)

(m) Inventory

General fund inventories are recorded at cost and are recognized as expenditures when consumed rather than when purchased. For the proprietary fund types, inventories are recorded at cost using the weighted average cost method, which approximates market, and expense is recognized when inventories are consumed in operations.

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

(n) Deferred Charges

Deferred charges reported in the Electric Fund include costs incurred in connection with the issuance of the 2002 Certificates of Participation Series A and B amortized over 30 years. It also includes the buyout cost of the Calpine energy purchase contract amortized over 9.5 years. The deferred charges reported in the Wastewater Fund include costs incurred on the issuance of the 1991 Certificates of Participation amortized over 32.5 years and the costs incurred on the issuance of the 20038 and 2004A Certificates of Participation amortized over 20 years.

(o) Capital Assets

Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles, infrastructure (e.g., streets, streetlights, traffic signals, sidewalks, and bridges), and electric lines, wastewater lines and storm drains are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with individual cost of \$3,000 or more and have an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures in the General and other governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset useful lives are not capitalized

As required by the Governmental Accounting Standards Board Statement No. 34, beginning July 1, 2002, the City has capitalized infrastructure, primarily its network of streets, as part of the capital assets shown in the governmental activities column on the government-wide statement of net assets. This capitalization included infrastructure that could be identified and has been acquired since July 1, 1980.

Depreciation of capital assets is provided on the straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	3 - 40
Machinery and equipment	2 - 40
Vehicles	5 - 15
Infrastructure	10 - 50

(p) Compensated Absences/Vacation and Sick Leave

Accumulated vacation and vested sick leave benefits are accrued when incurred in the government-wide financial statements and the proprietary financial statements. A liability for these amounts is reported in the governmental funds only if they have matured.

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

**(q) Self-Insurance**

The City is self-insured for general liability, workers' compensation, dental benefits, unemployment and long-term disability. Various City funds are charged premiums for the City's self-insurance liability, which is accounted for as an internal service fund. The accrued liability for estimated self-insured claims represents an estimate of the eventual **loss** on claims arising prior to year-end including claims incurred **but** not reported,

**(r) Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**(s) Statement of Cash Flows**

A statement of cash flows is presented for proprietary fund types. For purposes of reporting cash flows, the City considers all highly liquid investments with maturities of three months or less when purchased and investments maintained in the pool to be cash equivalents.

**(t) Use of Estimates**

The preparation of financial statements in conformity with *GAAP* requires management to make estimates **and** assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

**2) Cash and Investments**

Cash and investments as of June 30, 2005 are classified in the accompanying financial statements as follows:

Statement of net assets:		
Cash and investments	\$	23,416,998
Restricted assets		30,112,466
Fiduciary funds cash and investments:		
Private-purpose trust funds		694,327
Agency fund		390,802
Total cash and investments	\$	<u>54,614,593</u>

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

Cash and investments as of June 30, 2005 consist of the following:

Cash on hand	\$ 1,812
Deposits with financial institutions	2,673,961
Investments	51,938,820
Total cash and investments	<u>\$ 54,614,593</u>

**a) Authorized Investments**

The City has adopted an investment policy pursuant to Government Code Section 53601 which authorizes the City to invest in obligations of the U.S. Treasury, U.S. Government agency securities and instruments, commercial paper rated A-1 by Standard & Poor's or P-1 by Moody's Commercial Paper Record, bankers' acceptances, certificates of deposits, mutual funds, government investment contracts, medium term notes as permitted by the Government Code, and the State of California Local Agency Investment Fund (LAIF). The City is not authorized to enter into reverse repurchase agreements. The City selects its investments based on safety, liquidity and yield.

**b) Investments Authorized by Debt Agreements**

Investments of debt proceeds held by bond trustee are governed by the provisions of the debt agreements and to the extent that they are permissible investments of funds of the City. The following table below identifies the permitted investment types authorized per the City's investment policy. The table also identifies certain provisions that address interest rate risk, credit risk, and concentration of credit risk.

Permitted Investments/Deposits	Maximum Maturity	Maximum % of Portfolio	Maximum Investment in One issuer	Minimum Credit Quality
U.S. Treasury Obligations	5 years	100%		AAA
U.S. Agency Securities	5 years	100%		AAA
Banker's Acceptances	180 days	40%	25%	AAA
Certificates of Deposit	5 years	100%	33%	
Negotiable Certificates of Deposit	5 years	30%		
Commercial Paper	270 days	40%		AAA
California State Local Agency Investment Fund (LAIF)	Indefinite	100%	\$40m per account	unrated
Money Market Mutual Funds	Indefinite	20%		AAA
Guaranteed investment contracts (GICs)	5 years	100%		AA-
Medium term Notes	5 years	30%		AAA

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

**c) Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the **sensitivity** of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment:

Investment as of June 30, 2005	Maturity <u>Less than One Year</u>	Maturity <u>One to Five Years</u>	<u>Total</u>
LAIF	\$ 21,705,117	\$	21,705,117
Money Market Mutual Funds	317,190		317,190
Equities and options	104,047		104,047
Held by bond trustee:			
Money Market Mutual Funds	13,611,731		13,611,731
Guaranteed investment contracts (GICs)		16,200,735	16,200,735
Total	\$ 35,738,085	16,200,735 \$	51,938,820

Investments in equities are shares of stocks received by the Library as an endowment from a private citizen.

**d) Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The money market funds are registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and have a rating by S & P of "AAAm-G," "AAA-m" or "AA-m" and rated by Moody's "Aaa." "Aa1" or "Aa2." The GICs and LAIF do not have a rating provided by a nationally recognized statistical rating organization.

**e) Concentration of Credit Risk**

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in LAIF and money market mutual funds are not subject to the concentration of credit risk disclosure. Of the remaining investments, only the GICs which are all issued by IXIS Funding Corporation, exceeded 5% of total City investments.

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

**f) Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover collateral securities that are in the possession of an outside **party**. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured deposits. \$3,624,250 of the City's deposits with financial institutions, which exceeded federal depository insurance limits, was collateralized in this fashion.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of another party. The California Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit **risk** does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools such as LAIF.

**g) Investment in State Investment Pool**

The City **is** a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized basis.

The total amount invested by all public agencies in LAIF at June 30, 2005 was \$18.6 billion. LAIF is part of the California Pooled Investment Account (PMIA), which at June 30, 2005 had a balance of \$60.5 billion. Of this amount, 2.406% was invested in derivative financial products. PMIA is not SEC-registered, but is required to invest according to California State Code. The average maturity of PMIA investments was **165** days as of June 30, 2005.

The Local Investment Advisory Board **has** oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The value of the pool of shares in LAIF, which maybe withdrawn, is determined on an amortized cost basis, which is different than the fair value of the pooled treasury's portion in the **pool**. Withdrawals from LAIF are done on a dollar for dollar basis.

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

In accordance with GASB 31, investments are marked to fair values annually and an adjustment is made to each fund accordingly. However, actual daily activity is done on a dollar to dollar basis and only a withdrawal from the pool size that jeopardizes pool participants would cause the withdrawal to be done at market value.

(3) ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Revenues of the General Fund, Electric, Wastewater and Water funds are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are as follows:

Uncollectibles related to late charges and services	\$ 13,500
Uncollectibles related to electric sales and services	163,600
Uncollectibles related to wastewater services	24,800
Uncollectibles related to water sales and services	32,100
Total uncollectibles of the current fiscal year	<u>\$ 234,000</u>

(4) INTERFUND RECEIVABLES/PAYABLES

Interfund receivables and payables at June 30, 2005 are as follows:

Due from	Due to	Amount
Other governmental	Streets	\$ 507,515
Other governmental	Other governmental	18,972
Nonmajor fund - Transit	Wastewater	1,688,947
		<u>\$ 2,215,434</u>

"Due to" and "due from" balances are recorded primarily when funds overdraw their share of pooled cash or when there are short-term loans between funds. The \$507,515 and the \$18,972 represent cash deficits in other governmental funds. The \$1,688,947 represents the cash deficit in the Transit Fund.



CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

Advances from	Advances to	Amount
General	Other governmental	\$ 250,960
Other governmental	Streets	676,770
Water	Other governmental	1,225,173
		<u>\$ 2,152,903</u>

The \$250,960 from the General Fund to the Other governmental is an advance used for the start up costs of a redevelopment agency. The \$676,770 advance from Other governmental **was** used for the Lower Sacramento Road expansion project. The \$1,225,173 advanced from the Water Fund **was** used for the construction of Fire Station #4.

(5) **TRANSFERS**

Transfers for the year ended June 30, 2005, are summarized **as** follows:

		<u>Transfers in</u>						Total
Transfers out:	General	Streets	Other Governmental	Electric	Wastewater	Water	Transit	
General	\$		18,655	22,273			\$	40,928
Streets	1,411,276		116,107				13,764	1,541,147
Other governmental	599,368	5,204	1,816,606		3,154	3,152		2,427,484
Electric	2,504,548		5,000		5,000	5,000		2,519,548
Wastewater	644,896		6,308	22,641				673,845
Water	661,897		6,305	25,471				693,673
Transit	221,199							221,199
Total	<u>\$ 6,043,184</u>	<u>5,204</u>	<u>1,968,981</u>	<u>70,385</u>	<u>8,154</u>	<u>8,152</u>	<u>13,764</u>	<u>\$ 8,117,824</u>

During the year, various interfund transfers were made to finance expenditures, subsidize operating losses and service debt

The total transfers out of \$1,411,276 from Streets to the General Fund include the transfer of \$985,000 gas tax revenues to fund the Public Works Street Maintenance Division and \$426,276 for engineering cost of Services. The transfers out of \$116,107 from Streets to Other **Governmental** represent transfer of \$96,107 to the Debt Service Fund for the principal and interest payment of the City's Measure K loan; and \$20,000 to the Transportation Fund.

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

Transfers out from Other Governmental to the General Fund of \$599,368 include transfers of \$432,984 from Police Facilities Impact fees to cover debt service associated with the financing of the New Police Building; \$110,183 for the lease payment of the new fire truck; \$50,000 to reimburse the General Fund for the costs associated with the administration of the IMF program; and \$6,201 for the Arts in Public Places program.

The \$1,816,606 transfers out from Other Governmental to Other Governmental represent transfers of \$1,679,987 to the Debt Service Fund for the principal, interest and fiscal charges required to pay the 2002 Certificates of Participation; \$45,000 to the Vehicle and Equipment Fund; and \$91,619 for operations.

The \$2,504,548 transfer out from the Electric Fund, \$644,896 from Wastewater, \$661,897 from Water and the \$221,199 from Transit represent primarily cost of services reimbursement to the General Fund.

**(6) CAPITAL ASSETS**

Capital assets activity of the primary government for the year-ended June 30, 2005, was as follows:

	Balance June 30, 2004	Increases	Decreases	Balance June 30, 2005
<u>Governmental activities</u>				
Capital assets, not being depreciated.				
Land	\$ 23,798,811			\$ 23,798,811
Work of art	62,024			62,024
Construction in progress	3,697,716	1,490,424	(814,342)	4,373,798
Total capital assets, not being depreciated	27358,551	1,490,424	(814,342)	28,234,633
Capital assets, being depreciated:				
Buildings and improvements	55,582,099	778,264		56,360,363
Machinery and equipment	7,505,642	36,733		7,542,375
Vehicles	8,507,369	416,777	(112,984)	8,811,162
Infrastructure	85,268,709	10,146,102		95,414,811
Total capital assets, being depreciated	156,863,819	11,377,876	(112,984)	168,128,711
<b>Less</b> accumulated depreciation for:				
Buildings and improvements	14,555,296	1,482,040		16,037,336
Machinery and equipment	5,708,530	576,701		6,285,317
Vehicles	6,019,996	539,814		6,559,610
Infrastructure	29,803,816	4,529,079		34,332,895

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

Total accumulated depreciation	56,087,638	7,127,520		63,215,158
Total capital assets, being depreciated, net	100,776,181	4,250,356	(112,984)	104,913,553
Governmental activities capital assets, net	<u>\$ 128,334,732</u>	<u>5,740,780</u>	<u>(927,326)</u>	<u>\$ 133,148,186</u>

**Business-type activities**

	Balance June 30, 2004	Increases	Decreases	Balance June 30, 2005
Capital assets, not being depreciated:				
Land	\$ 5,247,806			\$ 5,247,806
Construction in progress	18,518,575	8,886,814	(7,098,113)	20,307,276
Total capital assets, not being depreciated	23,766,381	8,886,814	(7,098,113)	25,555,082
Capital assets, being depreciated:				
Buildings and improvements	32,647,744	3,315,866	(1,502,408)	34,461,202
Machinery and equipment	90,604,278	10,634,441	(1,359,162)	99,879,557
Vehicles	6,601,087	304,715		6,905,802
Total capital assets, being depreciated	129,853,109	14,255,022	(2,861,570)	141,246,561
Less accumulated depreciation for:				
Buildings and improvements	7,745,634	964,917	(1,502,408)	7,208,143
Machinery and equipment	27,780,855	2,233,091		30,013,946
Vehicles	4,197,236	278,546		4,475,782
Total accumulated depreciation	39,723,725	3,476,554	(1,502,408)	41,697,871
Total capital assets, being depreciated, net	90,129,384	10,778,468	(1,359,162)	99,548,690
Business-type activities capital assets, net	<u>\$ 113,895,765</u>	<u>19,665,282</u>	<u>(8,457,275)</u>	<u>\$ 125,103,772</u>

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

Depreciation expense was charged to **function/programs** of the **primary** government as follows:

Governmental activities:

General government	\$ 748,670
Public protection	1,052,873
Public works	4,699,475
Library	4,767
Parks and recreation	621,735
Total depreciation expense - governmental activities	<u>\$ 7,127,520</u>

Business-type activities:

Electric	\$ 944,676
Wastewater	1,356,442
Water	794,992
Transit	380,444
Total depreciation expense - business-type activities	<u>\$ 3,476,554</u>

(7) Operating Leases

The City is obligated under various operating leases for the use of buildings and office space. Total costs for such leases were \$164,384 for the year ended June 30, 2005.

Future minimum lease payments required by lease agreements that have initial or remaining noncancellable lease terms of one year or more as of June 30, 2005, are as follows:

<u>Fiscal Years Ending</u>	
2006	\$ 142,400
2007	<u>71,400</u>
Total minimum lease payments required under operating leases	<u>\$ 213,800</u>

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

**(8) Long-Term Obligations**

The **following** is a summary of debt transactions of the City for the year ended June 30, 2005:

	Interest Rates	June 30, 2004	Additions	Reductions	June 30, 2005	Amounts Due Within One Year
<b>Governmental activities:</b>						
Compensated absences		\$ 7,908,647	2,520,272	(1,121,785)	\$ 9,307,134	\$ 2,520,272
2002 Certificates of Participation	3.0-5.0%	25,530,000		(500,000)	25,030,000	520,000
Note payable	5.0%	245,000			245,000	
Loan payable	4.0%	456,295		(88,120)	368,175	89,662
Capital leases	5.3-5.39%	1,354,351	124,478	(266,499)	1,212,330	289,598
Self-insurance liability		5,508,000	1,224,805	(1,592,805)	5,140,000	1,592,805
Governmental activity long-term liabilities		<u>\$ 41,002,293</u>	<u>3,869,555</u>	<u>(3,569,209)</u>	<u>\$ 41,302,639</u>	<u>\$ 5,012,337</u>

	Interest Rates	June 30, 2004	Additions	Reductions	June 30, 2005	Amounts Due Within One Year
<b>Business-type activities:</b>						
Compensated absences		\$ <u>1,904,802</u>	613,917	(139,295)	\$ 2,379,424	\$ 613,917
California Safe Drinking Water Note Payable	3.41%	2,378,411		(148,286)	2,230,125	153,220
Certificates of Participation:						
1991 Certificates of Participation	4.5-6.6%	9,390,000		(185,000)	9,205,000	195,000
Less deferred amounts:						
For issuance discounts		(325,702)		14,475	(311,227)	(14,475)
Net		<u>9,064,298</u>		<u>(170,525)</u>	<u>8,893,773</u>	<u>180,525</u>
2000 Environmental Abatement Certificates of Participation - variable				(15,625,000)		
2002 Certificates of Participation A & B	Variable	50,460,000		(3,700,000)	46,760,000	

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

					Amounts Due Within One Year
	Interest Rates	June 30, 2004	Additions	Reductions	June 30, 2005
Less deferred amounts:					
From refunding		(7,453,920)		286,689	(7,167,231)
Net		<u>43,006,080</u>		(3,413,311)	<u>39,592,769</u>
2002 Certificates of Participation C & D	1.54-5.25%	40,840,000		(2,195,000)	38,645,000
Add deferred amounts:					
For issuance premium		492,276		(65,636)	426,640
Total		<u>41,332,276</u>		<u>(2,260,636)</u>	<u>39,071,640</u>
2003 Certificates of Participation B	2.0-5.0%	5,000,000		(185,000)	4,815,000
Add deferred amounts:					
For issuance premium		78,963		(4,102)	74,861
Total		<u>5,078,963</u>		<u>(189,102)</u>	<u>4,889,861</u>
2004 Certificates of Participation A	2.0-5.5%	27,360,000		(170,000)	27,190,000
Add deferred amounts:					
For issuance premium		430,860		(21,277)	409,583
Total		<u>27,790,860</u>		<u>(191,277)</u>	<u>27,599,583</u>
Total Certificates of Participation		<u>141,897,477</u>		<u>(21,849,851)</u>	<u>120,047,626</u>
Business-type activity long-term liabilities		<u>\$ 146,180,690</u>	<u>613,917</u>	<u>(22,137,432)</u>	<u>\$ 124,657,175</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At yearend \$5,140,000 of internal service funds self-insurance liability was included in the above amounts. Also, for the governmental activities, compensated absences are generally liquidated by the general fund.

Long-term debt payable at June 30, 2005, comprised of the following individual issues:

**California Safe Drinking Water Note Payable**

The City entered into a contract on October 16, 1991, with the State of California Department of Water Resources to assist the City in financing the construction of water wells enabling the City to meet safe drinking water standards established by the State. The original amount of the note was \$3,129,828 and is secured by the project and a pledge of user fees collected by the Water Enterprise Fund. Semiannual payments of \$114,006, are payable each October 1 and April 1 through 2016.

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

Annual debt service requirements to maturity of water note payable are as follows:

Fiscal Year Ending June 30,	Business-type Activities	
	Principal	Interest
2006	\$ 153,220	\$ 74,758
2007	150,488	69,488
2008	163,810	64,166
2009	169,695	58,281
2010	175,409	52,567
2011-2015	971,779	168,109
2016-2017	437,724	18,853
Total	<u>\$ 2,230,125</u>	<u>\$ 506,222</u>

Note Payable

The City issued a \$245,000 promissory note to James E. Dean and Carol Dean, as trustees of the James E. Dean Family Trust, for the purchase of 307 W. Elm Street property, which is the site of the new Public Safety Building. Interest is payable quarterly and principal is due on April 1, 2007.

Annual debt service requirements to maturity of the note payable are as follows:

Fiscal Year Ending June 30,	Governmental Activities	
	Principal	Interest
2006	\$ 245,000	\$ 12,250
2007	245,000	9,188
Total	<u>\$ 245,000</u>	<u>\$ 21,438</u>

Loan Payable

The City entered into an agreement and issued a promissory note to San Joaquin County Council of Governments, a joint powers agency acting as the San Joaquin County Transportation Authority, in the amount of \$840,000 on February 5, 1999 for the purpose of funding the Kettleman Lane/SR 99 Interchange project. The balance remaining as of June 30, 2005, is \$368,175. Interest and principal is due and payable annually and matures on July 1, 2009.

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

Annual debt service requirements to maturity of loan payable are as follows:

Fiscal Year Ending June 30,	Governmental Activities	
	Principal	Interest
2006	\$ 89,662	\$ 6,443
2007	91,232	4,874
2008	92,828	3,277
2009	94,453	1,653
Total	\$ 368,175	\$ 16,247

Certificates of Participation

**\$11,170,000** Certificates of Participation (1991 Wastewater Treatment Plant Expansion Refunding Project) were sold in December 1991 for the repayment of the 1988 Wastewater Treatment Plant Expansion Project at a lower interest rate with approximately \$1,400,000 of additional proceeds. Principal is payable annually on August 1 in amounts from \$100,000 to \$760,000 with final payment due August 1, 2026.

**\$5,000,000** California Statewide Communities Development Authority Water and Wastewater Revenue Bonds were issued on October 7, 2003. The City of Lodi along with the City of Fort Bragg issued \$9.855 million 2003 Series B revenue bonds through the California Statewide Communities Development Authority (the "Authority") pooled financing program. The City of Lodi's portion is \$5.0 million for the upgrade of its wastewater facilities. Principal is payable annually on October 1 in amounts from \$185,000 to \$365,000 with final payment due October 1, 2023.

The Authority's Water and Wastewater Pooled Financing Program is available to California water and wastewater agencies to facilitate the financing or refinancing of capital improvements. The program is available to California cities and special districts that operate water or wastewater enterprises. The Authority is authorized pursuant to Chapter 5 of Division 7 of Title 1 of the California Government Code to issue bonds to finance and refinance water and wastewater public capital improvements of local agencies located throughout California.

**\$27,360,000** Certificates of Participation (2004A COP) were issued on May 12, 2004 to provide funds to finance the costs of certain improvements to the wastewater collection, treatment and disposal system of the City. Principal is payable annually on October 1 in amounts from \$170,000 to \$2,070,000 with final payment due October 1, 2024.

**\$26,745,000** Certificates of Participation (2002 COP) were issued in January 2002 to provide funds to finance the costs of constructing, furnishing and equipping a new police building and jail for the City; to finance portions of certain other projects and to refund the outstanding



CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

1995 and 1996 Certificates of Participation. The 1995 Certificates of Participation (1995 COP) were sold in October 1995 to finance the City Downtown Revitalization and the Cherokee Lane Beautification projects. The 1996 Certificates of Participation (1996 COP) were **sold** in August 1996 to finance the construction of the **Hutchins** Street Square Conference and Performing Arts Center. Principal is payable annually on October 1 in amounts from \$730,000 to \$1,600,000 with final payment due October 1, 2031.

**\$46,760,000** 2002 Variable Rate Demand Series A and **\$8,400,000** 2002 Taxable Series B Electric System Revenue Certificates of Participation were sold in January 2002. The proceeds of the 2002A Certificates of Participation were used to advance refund the 1999 Electric System Certificates of Participation Series A and the 1999 Series B Capital Appreciation certificates. The 1999 Series A and Series B Revenue Certificates of Participation were sold on August 18, 1999, to provide funds to finance the costs of certain improvements to the distribution and transmission facilities of the City's Electric System. As of June 30, 2005, the outstanding balance of the advanced refunded certificates is \$43,957,682. The proceeds of the 2002B Certificates were deposited in the Rate Stabilization Fund and applied to certain power purchase costs of the City. Principal for Series A is payable annually beginning 2011 to 2032 in amounts ranging from \$1,175,000 to \$3,460,000. Series B was fully paid as of June 30, 2005.

The interest rate on the 2002A Certificates is determined based on the "Weekly Rate Index" for weekly interest rate periods. "Weekly Rate Index" is defined as The Bond Market Association Municipal Index as of the most recent date for which such index is published.

**\$21,225,000** Revenue Certificates of Participation 2002 Series C and **\$22,740,000** Revenue Certificates of Participation Series D were issued to buy out the energy purchase agreement with Calpine.

In February 2001, the City entered into an energy purchase agreement (the Original Agreement) with Calpine Energy Services L.P. (Calpine) to purchase 25 MW of energy at \$65/mwh for a ten-year period beginning January 1, 2002. Since the execution of the Original Agreement, actions of the State in connection with the energy market conditions, including the initiation of conservation programs, and other factors, have resulted in lower electric load requirements and reduced energy costs throughout the State. As a result, the City's need for the energy purchased under the Original Agreement to serve its load has been reduced. The Original Agreement was amended on September 4, 2002, and was divided into three parts. The City sold its interests in the energy purchased under the Original Agreement to Calpine and nets the payments due from the City with respect to its purchase of such energy against the payments due from Calpine with respect to its purchase of the City's rights to such energy. On November 21, 2002, the City issued \$21,225,000 Revenue Certificates of Participation 2002 Series C and \$22,740,000 Revenue Certificates of Participation 2002 Taxable Series D to buy out the amended contract in the amount of \$42,406,175.

On June 29, 2000, the Lodi Financing Corporation was authorized to issue variable rate Certificates of Participation up to Sixteen Million Dollars (\$16,000,000) intended to fund the investigation and clean up of the groundwater and soil contamination located within an area approximately 600 acres encompassing the City's business area. Total bonds issued were **\$15,625,000** and accrued interest was \$5,651,708. During the fiscal year, the City settled with Lehman Brothers on this liability for \$6.0 million resulting in a forgiveness of debt (special item) of **\$15,276,708**.

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Notes to Basic Financial Statements (continued)  
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The various indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of moneys through various restricted accounts and minimum revenue bond coverage. The City is in compliance with all such significant limitations and restrictions.

Interest Rate Swaps

**1999 \$42 Million Forward Basis Swap**

Objective:

As a means to lower its borrowing costs, the City executed a forward floating-to-floating ("Basis") swap in connection with its existing \$42,000,000 Electric System Revenue Certificates of Participation, 1999 Series A and B. The intention of the swap was to provide protection against rising short-term interest rates since the City's net payment increases as rates rise.

Terms:

Under the swap, the City pays Citigroup (previously Salomon) a variable payment computed as The Bond Market Association Municipal Swap Index <sup>TM</sup> (BMA) and received a variable payment computed as 74.25% of the London Interbank Offered Rate (LIBOR). The swap has a notional amount of \$42 million and the associated fixed rate bonds had a \$42 million principal amount at the time the swap was executed. The swap began on July 15, 2003 and matures on September 29, 2014. As of June 30, 2005, rates were as follows:

		<u>Rates</u>
Interest rate swap:		
Variable payment to counterparty	BMA	2.2800%
Fixed payment from counterparty	74.25% of LIBOR	(2.4800%)
Net interest rate swap payments		(0.2000%)

Fair Value:

As of June 30, 2005, the swap had a fair value of (\$573,174). The fair value was estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates by the yield curve correctly anticipate future spot rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon rate bonds due on the date of each future net settlement on the swaps.

Credit Risk:

As of June 30, 2005, the City was not exposed to credit risk because the swap had a negative fair market value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the swap's fair value. The counterparty was rated Aa1 by Moody's Investors Service, **AA-** by Standard & Poor's, and **AA+** by Fitch Ratings. To mitigate the potential for

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

credit risk, the counterparty is required to post collateral should the fair value exceed certain thresholds. In the event of a downgrade of the counterparty below AAA by Standard & Poor's, the threshold amount is \$10 million.

**Basis Risk:**

As noted above, the swap exposes the City to basis risk should the relationship between LIBOR and BMA converge. If a change occurs that results in the rates' moving to convergence, the expected cost savings of the swap may not be realized.

**Termination Risk:**

The swap contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated by the City if the counterparty's credit rating falls below BBB- as determined by Fitch or BBB- as determined by Standard & Poor's. Also, if at the time of an early termination of the swap, if the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

**2002 \$46.8 Million Step-Up Coupon Swap**

**Objective:**

In connection with its issuance of \$46,760,000 of Electric System Revenue Certificates of Participation 2002 Variable Rate Demand Series A, the City entered into a swap transaction with Salomon Smith Barney on January 2002. The intention of the swap was to change the City's variable interest rate on the bonds to a synthetic fixed rate that steps up over time. The swap was structured with step-up coupons in order to provide the City with lower debt service in the earlier years of the transaction.

**Terms:**

Under the swap, the City pays Citigroup (previously Salomon) a fixed rate with an initial coupon of 2.503%. Beginning July 1, 2005, the swap coupon stepped up to 3.749% and then steps up to 4.945% on July 1, 2010 until maturity. In exchange, the City receives an initial variable rate equal to 59.65% of the 1-month London Interbank Offered Rate (LIBOR). Beginning January 1, 2004, the percent of LIBOR received by the City stepped up to 60.56% and then steps up to 62.92% of LIBOR on January 1, 2006 until maturity. The 4.945% coupon in the final period reflects the above-market fixed rate required to offset the first two periods' below-market fixed rates of 2.503% and 3.749% respectively. The effective at-market fixed rate for the entire swap term equals 3.85% or approximately 61.71% of LIBOR. The notional amount of the swap matches the notional amount of the bonds outstanding in each year. The bonds' variable-rate coupons are assumed to be based on The Bond Market Association Municipal Swap Index<sup>TM</sup> (BMA).

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Notes to Basic Financial Statements (continued)  
June 30, 2005

The bonds and related swap mature on July 1, 2032. As of June 30, 2005, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest rate swap:		
Fixed payment to counterparty	Fixed	3.7490%
Variable payment from counterparty	60.56% of LIBOR	(2.0227%)
Net interest rate swap payments		1.7263%
Variable rate bond payments	BMA	2.2800%
<u>Synthetic interest rate on bonds</u>		<u>4.0063%</u>

**Fair Value:**

As of June 30, 2005, the swap had a fair value of (\$6,514,993). The negative fair value of the swap is a result of the decline in interest rates since the inception date of the swap. The fair value was estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current **forward** rates by the yield curve correctly anticipate future spot rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon rate bonds due on the date of each future net settlement on the swap.

**Credit Risk:**

As of June 30, 2005, the City was not exposed to credit risk because the swap had a negative fair market value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the swap's fair value. The counterparty was rated Aa1 by Moody's Investors Service, **AA-** by Standard & Poor's, and **AA+** by Fitch Ratings. To mitigate the potential for credit risk, the counterparty is required to post collateral should the fair value exceed certain thresholds. In the event of a downgrade of the counterparty below **AAA** by Standard & Poor's, the threshold amount is \$10 million.

**Basis Risk:**

As noted above, the swap exposes the City to basis risk should the relationship between **LIBOR** and BMA converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates' moving to convergence, the expected cost savings of the swap may not be realized.

**Termination Risk:**

The swap contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated by the City if the counterparty's credit rating falls below Baa3 as determined by Moody's Investor Service or **BBB-** as determined by Standard & Poor's. If the swap is terminated, the bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of an early termination of the swap, if the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

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Notes to Basic Financial Statements (continued)  
June 30, 2005

**2003 \$42 Million Fixed-to-Floating Swap Termination**  
**2003 \$42 Million Fixed-to-Floating Swap**

**Objective:**

On April 16, 2003 the City executed two transactions with Citibank, which comprised 1) the termination of an existing \$42 million fixed-to-floating swap maturing 2014 and 2) the execution of a **new** \$42 million fixed-to-floating swap maturing 2009. The City initially entered into a swap in September 1999 in order to convert its fixed-rate Bonds, into synthetic variable-rate debt. The fixed-receiver rate on the swap was 5.11%. Since interest rates had declined substantially since the City entered into the swap, the City received a net payment from Citibank to terminate the swap in the amount of \$4,743,000. The City executed a new \$42 million fixed-to-floating swap to manage interest rate volatility in its liability portfolio.

**Terms:**

Under the swap, the City receives a fixed rate of 4.00% and pays The Bond Market Association Municipal Swap Index™ (BMA) +100 bps. The swap has a notional amount of \$42 million and matures on January 15, 2009. As of June 30, 2005, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest rate swap:		
Variable payment to counterparty	BMA + 100 bps	3.2800%
Fixed payment from counterparty	Fixed	(4.0000%)
Net interest rate swap payments		(0.7200%)

**Fair Value:**

As of June 30, 2005, the swap had a fair value of (\$544,188). The fair value was estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates by the yield curve correctly anticipate future spot rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero coupon rate bonds due on the date of each future net settlement on the swaps.

**Credit Risk:**

As of June 30, 2005, the City was not exposed to credit risk because the swap had a negative fair market value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the swap's fair value. The counterparty was rated Aa1 by Moody's Investors Service, AA- by Standard & Poor's, and AA+ by Fitch Ratings. To mitigate the potential for credit risk, the counterparty is required to post collateral should the fair value exceed certain thresholds. In the event of a downgrade of the counterparty below AAA by Standard & Poor's, the threshold amount is \$10 million.

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

**Basis Risk:**

The swap does not expose the City to basis risk since the swap is not based on the LIBOR index. If a change occurs that results in BMA increasing, the expected savings of the swap may not be realized.

**Termination Risk:**

The swap contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated by the City if the counterparty's credit rating falls below BBB- as determined by Fitch or BBB- as determined by Standard & Poor's. If the swap is terminated, the bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of an early termination of the swap, if the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

**Swap payments and associated debt.**

Using rates as of June 30, 2005, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	2002 Electric Certificates of Participation Series A			
	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2006	\$	1,066,128	684,099	\$ 1,750,227
2007		1,066,128	1,266,728	2,332,856
2008		1,066,128	1,266,728	2,332,856
2009		1,066,128	1,266,728	2,332,856
2010		1,066,128	1,266,728	2,332,856
2011-2015	6,540,000	5,163,972	8,155,704	19,889,676
2016-2020	8,440,000	4,402,794	7,384,258	20,227,052
2021-2025	10,925,000	3,386,598	5,597,526	19,909,124
2026-2030	14,110,000	2,072,748	3,288,400	19,471,148
2031-2033	6,745,000	457,596	591,120	7,793,716
	<u>\$ 46,760,000</u>	<u>20,814,348</u>	<u>30,798,019</u>	<u>\$ 98,372,367</u>

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

Annual debt service requirements to maturity for certificates of participation are as follows:

Fiscal Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 520,000	\$ 1,156,372	\$ 3,625,000	\$ 5,510,895
2007	535,000	1,140,547	3,620,000	5,984,888
2008	555,000	1,123,642	6,595,000	5,871,401
2009	565,000	1,104,874	4,320,000	5,632,747
2010	590,000	1,084,071	4,550,000	5,451,167
2011-2015	3,300,000	5,037,572	37,710,000	25,204,056
2016-2020	4,085,000	4,201,120	19,260,000	17,447,959
2021-2025	5,165,000	3,094,263	24,610,000	11,285,309
2026-2030	6,595,000	1,636,125	15,580,000	5,412,068
2031-2032	3,120,000	158,000	6,745,000	1,048,716
Total	\$ 25,030,000	\$ 19,736,586	\$ 126,615,000	\$ 88,849,206

### Capital Leases

The City has entered into lease agreements for financing the acquisition of two fire trucks and the improvements to the leased Finance Building. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of inception date. The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Vehicles	\$2,307,123
Leasehold improvements	124,478
Less accumulated depreciation	(916,741)
Total	<u>\$ 1,514,860</u>

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

The present values of future minimum capital lease payments as of June 30, 2005, are as follows:

Fiscal Years Ending		
2006	\$	340,422
2007		307,125
2008		279,348
2009		148,003
2010		148,003
2011		148,003
Total minimum lease payments		1,370,904
Less amounts representing interest		(158,574)
Present value of minimum capital lease payments	\$	1,212,330

#### Special Assessment District Debt

The City issued limited obligation improvement bonds on July 22, 1996, for the "Lodi Central City Revitalization Assessment District." These bonds have no governmental commitment and debt service is recorded in an Agency Fund. These bonds were issued under the Improvement Act of 1915 and will mature in the year 2011. The City's liability in the event of delinquent assessment shall not exceed the balance of the established Reserve Fund. The amount outstanding as of June 30, 2005, is \$1,000,000.

#### Industrial Development Bonds

The City of Lodi has lent its name to the City of Lodi Industrial Development Authority for the purpose of issuing the following industrial development bonds: Minton Corporation \$5,000,000; Dart Corporation \$8,000,000; Wallace Computer Services \$3,000,000; and Luster-Cal Nameplate Corporation \$3,000,000. These bonds are special obligation bonds only, payable solely out of the bond revenues or other sources of the above companies and are not a pledge of the general credit of the City. The City is not obligated for the redemption or administration of these industrial development bonds.

#### Woodbridge Irrigation District Bonds

On October 8, 2003, the City lent its name to the Woodbridge Irrigation District (the "District") in the procurement of \$11.745 million 2003 Revenue Certificates of Participation, to provide funds to finance the costs of construction of a new diversion dam on the Mokelumne River and related facilities of the water district. A significant portion of the District's sources of payment for the 2003 Certificates are expected to be derived



**CITY OF LODI**  
Notes to Basic Financial Statements (continued)  
June 30, 2005

from amounts to be received by the District from the City of Lodi pursuant to an Agreement for purchase of water from the Woodbridge Irrigation District by the City of Lodi, dated May 13, 2003 (the "Lodi Water Sales Agreement"). Under the agreement, the City will purchase 6,000 acre feet of water per annum from the District for 40 years.

**(9) Nature and Purpose of Reported Fund Equity**

The following is a summary of reserved, unreserved-designated and unreserved-undesignated fund balances at June 30, 2005:

	General	Streets	Other Governmental	Total
Reserved for:				
Library	\$ 697,158		\$ 697,158	
Encumbrances	130,332	3,965,554	299,752	4,395,638
Advances to other funds	250,960		676,770	927,730
Inventory	106,954			106,954
Total Reserved	1,185,404	3,965,554	976,522	6,127,480
Unreserved designated for:				
Specific projects and programs		1,009,182	6,040,515	7,049,697
Total Designated		1,009,182	6,040,515	7,049,697
Unreserved - undesignated	1,506,926			1,506,926
Total Fund Balances	\$ 2,692,330	4,974,736	7,017,037	\$ 14,684,103

**Reserved Fund Balance**

Reserved represents that portion that is legally segregated for specific purposes and is not available for discretionary appropriation.

**Unreserved-Designated Fund balance**

Designated represents that portion for which the City has made tentative plans.

**Unreserved-Undesignated Fund Balance**

Undesignated represents that portion which is available for budgeting in future periods.

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

(10) Defined Benefit **Pension** Plan

(a) **Plan** Description

The City of Lodi contributes to the California Public Employees' Retirement System (PERS); an agent multiple-employer public employee defined benefit pension plan. **PERS** provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office- 400 P Street, Sacramento, CA 95814.

(b) Funding policy

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 6.92% for miscellaneous employees, 30.152% for fire employees and 24.608% for police employees, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

(c) Annual Pension **Cost**

For fiscal 2005, the City's annual pension cost of \$3,614,422 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2002, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses) (b) projected annual salary increases that vary by age, length of service, and type of employment (c) 3.75% payroll growth, and (d) 3.50% inflation. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). **PERS** unfunded actuarial liability is being amortized as a level percentage of projected payroll on a closed basis. Amortization of the remaining period varies: (a) safety police plan over 19 years (b) safety fire plan over 19 years, and (c) miscellaneous plan over 20 years as of the valuation date.

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

d) Trend Information

Three-Year Trend information(\$ Amounts in Thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/03	543	100%	\$0
6/30/04	1,304	100%	\$0
6/30/05	3,614	100%	\$0

(11) Post-Retirement Health Care Benefits

The City provides no post-employment benefits for its employees. However, employees hired prior to July 1, 1994, who retire after ten years of service, may elect to convert accumulated sick leave time to establish an individual medical insurance account. Depending on the bargaining unit of the employee, the value of the insurance account shall be determined by the following options:

a) Option I - "Bank"

The number of accumulated hours shall be reduced by 16-213% and the remaining balance converted into days. The days are then multiplied by the current monthly premium being paid for the employee and, if applicable, his/her dependents. Fifty percent of that amount ~~will~~ **be** placed into an account to be used by the City to pay medical insurance premiums for the employee and, if applicable, his/her dependents. For each year of employment over ten years, 2.5% will be added to the 50% used in determining the account amount. Total premiums shall be paid from the account until its depletion, at which time the benefit ceases.

b) Option II - "Conversion"

The number of accumulated hours is multiplied by 50% and converted into days. The City pays one month's premium for employee and dependents for each day. For each year of employment in excess of ten years, 2.5% is added to the 50%. The employee must pay any increase in premiums.

c) Option III - "Cash-Out"

A retiring employee will be able to choose a cash pay-off of accumulated sick leave at the rate of 30% of base pay per hour.

d) Option IV - "Service Credit"

A retiring employee will be able to convert unused sick leave to service credit for CALPERS retirement purposes

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

**(12) Claims and Benefits**

The City is exposed to various risks of **loss** related to torts; theft of, damage to and destruction of assets; **errors** and omissions; injuries to employees; and natural disasters. The City is self-insured as discussed in the following paragraphs for which liabilities are recorded in the Internal Service Fund.

The City is self-insured for general liability up to **the** first \$500,000 per occurrence with claims from \$500,000 to **\$40,000,000** per occurrence and in the aggregate insured through the California Joint Powers Risk Management Authority. insurance coverage for general liability increased from \$25,000,000 in prior year to \$40,000,000 in the current year. The City never had any settlements that exceeded its general liability insurance coverage. (See note **14**)

The City is self-insured for workers' compensation up to the first \$250,000 per claim. Any claims of \$250,000 up to California statutory limits are covered under a purchased policy through the membership with the Local Agency Workers' Compensation Excess Joint Powers Authority. Workers' compensation coverage increased from \$50,000,000 in prior year to \$100,000,000 in the current year. The City never had any settlements that exceeded its workers' compensation insurance coverage. (See note 14).

The City is fully self-insured for dental, unemployment and long-term disability for its employees

General liability and workers' compensation claims are administered by an outside agency and all other claims are administered by the City. The City has accrued a liability of \$5,140,000 at June 30, 2005, for all self-insured claims in the Internal Service Fund that includes an amount for incurred but not reported claims. The liability amount is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. In the opinion of the City, the amounts accrued are adequate to cover claims incurred but not reported in addition to known claims.

Changes in the self-insurance liability for fiscal years ended June 30, 2005 and 2004 are as follows:

	<u>Beginning</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending</u>
FY 03-04	\$ 3,290,581	3,860,633	(1,643,214)	\$ 5,508,000
FY 04-05	\$ 5,508,000	1,224,805	(1,592,805)	\$ 5,140,000

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

(13) Participation in Joint Ventures

Northern California Power Agency

The City, along with fourteen other public agencies, is a member of the Northern California Power Agency (NCPA) that was formed in 1968 as a joint powers agency. Its membership consists of eleven cities with publicly owned electric utility distribution systems, one irrigation district, one public utility district, one port authority and four other associate member entities. NCPA is generally empowered to purchase, generate, transmit, distribute and sell electrical energy. Members participate in the projects of NCPA on an elective basis. A commission comprising of one representative from each member organization governs NCPA. The commission is responsible for the general management of the affairs, property and business of NCPA. Under the direction of the general manager, the staff of NCPA is responsible for providing various administrative, operating and planning services for NCPA and its associated power corporations.

Project Financing and Construction

NCPA's project construction and development programs have been individually financed by project revenue bonds collateralized by NCPA's assignment of all payments, revenues and proceeds associated with its interest in each project. Each Project Participant has agreed to pay its proportionate share of debt service and other costs of the related project, notwithstanding the suspension, interruption, interference, reduction or curtailment of output from the project for any reason. Certain of the revenue bonds are additionally supported by municipal bond insurance credit enhancements.

Increase in Non-defaulting Project Participant's Original Project Entitlement Percentage

Upon the failure of any Project Participant to make any payment, which failure constitutes a default under the Member Agreement for the projects, and except as sales and transfers are made pursuant thereto, the Member Agreements provide that Project Entitlement for each non-defaulting Project Participant shall be automatically increased for the remaining term of the Member Agreement; pro rata with those of the non-defaulting Project Participant thereunder; provided, however, that the sum of such increase for any non-defaulting Project Participant shall not exceed, without written consent of such non-defaulting Project Participant, an accumulated maximum of 25% of the non-defaulting Project Participant's original Project Entitlement Percentage Share.

General Operating Reserve with NCPA

Members of NCPA established a general operating reserve in 1992 for the purposes of providing a vehicle to fund reasonably foreseeable contingent liabilities. It was set up primarily to provide the following advantages: minimizes the number and dollar amount of reserve that might otherwise be funded separately in connection with NCPA's individually financed operating plants, projects and programs; provides each member with flexibility and unilateral control over the determination of what they will fund, how they will fund it and what expenditures from the reserve will be made on their individual behalf. It provides funding for contingent liabilities that are not budgeted but that may require significant future expenditures. The reserve is segregated by participant and is refundable on demand by the participant.

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

As of June 30, 2005, the City's balance in the NCPA General Operating Reserve, which has been credited with annual interest earnings and settlements, is \$1,955,896.

Project Participation

The NCPA members and their percentage share at June 30, 2004, which is the most recent available data, are as follows:

	Geothermal Project	Hydro Electric Project	Combustion Turbine Project #1	Multiple Capital Facilities	Transmission Project
Alameda	16.8825	10.00	13.092	19.00	30.3590
Biggs	0.2270				0.4082
Gridley	0.3360				0.7103
Healdsburg	3.6740	1.66	3.500		6.6068
Lodi	10.2800	10.37	34.780	39.50	18.4861
Lompoc	3.6810	2.30	3.500	5.00	6.6194
Palo Alto		22.92			11.0736
Plumas-Sierra Rural Electric Cooperative	0.7010	1.69	1.090		1.4647
Roseville	7.8830	12.00	13.584	36.50	14.1756
Santa Clara	44.3905	37.02	25.000		
Turlock Irrigation District	6.3305				
Ukiah	5.6145	2.04	5.454		10.0963

Bulk power purchased by the City through NCPA amounted to \$33,068,774 during the year ended June 30, 2005 and is reflected in utilities expense in the Electric Enterprise Fund.

NCPA Geothermal Project

A purchase power agreement with NCPA obligates the City for a 10.28% share of the operating costs and debt service of two of NCPA's 110-megawatt steam powered plants, Project Number 2 and Project Number 3. Outstanding long-term debt related to this project was approximately \$217 million at June 30, 2004.

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

In addition to federal geothermal leasehold, steam wells, gathering system and related facilities, the project consists of two electric generating stations (Plant 1 and Plant 2). Each plant has two 55MW turbine generator units utilizing low temperature geothermal steam; associated electrical, mechanical and control facilities: a heat dissipation system; a steam gathering system; a transmission ~~tap~~line; and, other related facilities. Geothermal steam for the project is derived from the geothermal property, which includes wellpads, access roads, steam wells and reinjection wells.

Calaveras Hydroelectric Project

NCPA contracted to finance, manage, construct and operate Hydroelectric Project Number One for the licensed owner, Calaveras County Water District. In exchange, NCPA has the right to the electric output of the project for 50 years from February 1982. NCPA has also the option to purchase power from the project in excess of the District's requirements for the subsequent 50 years, subject to regulatory approval.

Under a power purchase agreement **the** City is obligated to pay 10.37% of the debt **service** and operating costs. At June 30, 2004, approximately \$501 million in long-term debt used to finance this project was outstanding.

NCPA Combustion Turbine Project

The project consists of five combustion turbine units, each nominally rated at 25 megawatts. Two such units are located in Roseville, ~~two~~ in Alameda and one in Lodi. The project provides capacity during peak load periods and emergency capacity reserves. Excess capacity and energy from the project are also sold to other entities from time to time. Under the NCPA power agreement, the City is obligated to pay 34.78% of the debt **service** and operating costs. **At** June 30, 2004 approximately \$25 million in long-term debt was outstanding.

Transmission Project

The project was undertaken to meet certain obligations of NCPA under the NCPA/PG & E Interconnection Agreement. The project includes an ownership interest in PG & E's 230kv Castle Rock to Lakeville Substation Transmission Line in ~~Sonoma~~ County, additional firm transmission rights in that Transmission Line, and a central scheduling and dispatch facility in service at the NCPA headquarters in Roseville, California. Under a power purchase agreement, the City is obligated to pay 18.4861% of the debt service and operating costs. At June 30, 2004, approximately \$5.5 million in long-term debt **was** outstanding.

Capital Facilities Project

The Project consists of one 49.9 megawatt natural gas-fired steam injected combustion turbine generator unit located in Lodi, California. Wastewater is reclaimed from the City **of Lodi's** White Slough water pollution control facility, processed to eliminate contaminants, and used in the turbine to produce steam for power enhancement and emissions control.

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

Under a power purchase agreement, the City is obligated to pay 39.5% of the debt service and operating costs. At June 30, 2004, approximately \$67 million in long-term debt was outstanding.

The following are the most recent available audited condensed financial statements of NCPA:

Combined Balance Sheet

June 30, 2004

Assets		Liabilities and Capitalization	
Current assets	\$ 69,064,000	Current portion of long-term debt	\$ 54,555,000
Restricted assets	191,898,000	Other current liabilities	46,365,000
Electric plant, net	471,628,000	Other liabilities and deferred credits	127,600,000
Other assets and deferred charges	<u>263,688,000</u>	Long-term debt	756,958,000
		Accumulated net revenues	<u>10,800,000</u>
Total assets	\$ <u>996,278,000</u>	Total liabilities and capitalization	\$ <u>996,278,000</u>

Combined Statement of Revenue and Expenses

Year ended June 30, 2004

Sales to participants for resale	\$ 185,639,000
Operating expenses	(137,542,000)
Other revenues (expenses)	(69,019,000)
Future recoverable costs	<u>25,275,000</u>
Net revenues before refunds	4,353,000
Refunds to participants	<u>(12,051,000)</u>
Net revenues	(7,698,000)
Accumulated net revenues, beginning of year	<u>18,498,000</u>
Accumulated net revenues, end of year	\$ <u>10,800,000</u>

Combined Statement of Cash Flow

Year ended June 30, 2004

Net cash provided by operating activities	\$ 85,498,000
Net cash used in investing activities	(39,916,000)
Net cash used in capital and related financing activities	(104,491,000)
Net cash provided by noncapital and related financing activities	<u>864,000</u>
Decrease in cash and cash equivalents	(58,045,000)
Cash and cash equivalents, beginning of year	<u>119,197,000</u>
Cash and cash equivalents end of year	\$ <u>61,152,000</u>

At June 30, 2004, NCPA's total outstanding long-term debt was \$811,513,000 at an average interest rate of 5%. The current portion of long-term debt at June 30, 2004, was \$54,555,000.



CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

Complete financial information for NCPA may be obtained at the following administration office:

Northern California Power Agency  
180 Cirby Way  
Roseville, CA 95678

Transmission Agency of Northern California

The Transmission Agency of Northern California (TANC) was organized under the California Government Code pursuant to a joint powers agreement entered into by fifteen Northern California utilities including the City of Lodi. The purpose of TANC is to provide electric transmission or other facilities for the use of its members through its authority to acquire, construct, finance, operate and maintain facilities for electric power transmission. The joint powers agreement provides that the costs of TANC's activities can be financed or recovered through assessment of its members or user charges through transmission contracts with its members. Each TANC member has agreed to pay a pro rata share of the costs to operate TANC and has the right to participate in future project agreements. The joint power agreement remains in effect until debt obligations and interest thereon have been paid, unless otherwise extended by the members.

Increase in Non-defaulting Project Participant's Original Project Entitlement Percentage

Upon the failure of any Project Participant to make any payment, which failure constitutes a default under the Member Agreement for the projects, and except as sales and transfers are made pursuant thereto, the Member Agreements provide that Project Entitlement for each non-defaulting Project Participant shall be automatically increased for the remaining term of the Member Agreement; pro rata with those of the non-defaulting Project Participant thereunder; provided, however, that the sum of such increase for any non-defaulting Project Participant shall not exceed, without written consent of such non-defaulting Project Participant, an accumulated maximum of 25% of the non-defaulting Project Participant's original Project Entitlement Percentage Share.

California-Oregon Transmission Project

The project is a 339-mile long, 500-kilovolt alternating current transmission project between Southern Oregon and Central California. The project is operated in coordination with the Pacific AC Intertie as a part of the California-Oregon Intertie (COI) within the Western System Coordinating Council (WSCC) region. The WSCC approved rating of the COI is 4,800 MW and the Pacific Direct Current Intertie (PDCI) is 3,100 MW for a combined total of 7,900 MW of transfer capability. Depending on the time of year, operational transfer capability of the combined COI and PDCI is between 6,900 MW and 7,900 MW.

TANC, California Department of Water Resources (CDWR), Western Area Power Authority (WAPA), and five other parties have agreed to an Interim Participation Agreement (IPA) under which project participant is granted a percentage entitlement in project transfer capability and is required to pay a percentage of the costs. Pursuant to the IPA and a subsequent agreement with WAPA, TANC is entitled to use approximately 1,242 MW, and is obligated to pay an average of approximately 73 percent of the operating costs associated with the project.

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

In 2004, CDWR has an option to purchase, at the project participants' original cost, approximately 6 percent of entitlement in the project's transfer capability. If this option is exercised, TANC's percentage of entitlement in project transfer capability may be reduced **pro-rata**.

Under the TANC joint powers agreement, the City is obligated to pay **1.89%** of its debt service and operating costs. At June 30, 2004, approximately **\$394** million in long-term debt was outstanding of which **\$20** million is considered current.

Complete financial information for TANC may be obtained at the following administration office:

Transmission Agency of Northern California  
3100 Zinfandel Drive, Suite 600  
Sacramento, CA 95670

**(14) Membership in Insurance Pools**  
California Joint Powers Risk Management Authority

The City is a member, along with twenty-four other public agencies, of California Joint Powers Risk Management Authority (CJPRMA) organized under a Joint Powers Agreement pursuant to the California Government Code for the purpose of sharing the risk of catastrophic general liability, automobile liability and public officials' errors and omissions losses because adequate insurance is not available in the commercial insurance market. CJPRMA has a twenty-one member Board of Directors, including a director from the City of Lodi. The Board **members** elect **officers** of CJPRMA every two years.

The ultimate cost of the program to the City depends on the catastrophic losses of all members, **as well as** the City's own **loss** experience and will be determined retrospectively five years **after** the end of the current program year. The City periodically pays deposits to the CJPRMA. These deposits are recorded as expenditures in the year paid, as they are a reasonable estimate of the actual cost of the program. During the year ended June 30, 2005, deposits of **\$274,197** were paid to CJPRMA.

The participants and their percentage shares at June 30, 2005, are as follows: City of Alameda 3.61%, CCCMRMIA 8.51%, Chico 1.68%, Central San Joaquin Valley Risk Management Authority 9.62%, Fairfield 2.82%, Fremont 6.12%, Livermore 2.41%, Lodi 2.22%, Manteca .42%, NCCSIF 7.87%, Petaluma 1.81%, Pomona (.74%), PERMA (.49%), Redding 3.80%, Redwood Empire Municipal Insurance Fund 6.54%, Roseville 3.90%, San Leandro 1.91%, San Rafael 2.54%, Santa Rosa 6.10%, Small Cities Organized Risk Effort 1.51%, Stockton 6.30%, Sunnyvale 5.85%, Vacaville 2.23%, Vallejo 2.63%, and Yolo County Public Agencies Risk Management Insurance Authority 10.83%.

Local Agency Workers' Compensation Excess Joint Powers Authority

The City, along with thirty-one other public agencies, is a member of the Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX), which was formed July 1992, for the purpose of sharing the risk of workers' compensation losses. All members are self-insured up to \$250,000 per occurrence, LAWCX members pool resources to pay claims from \$250,000 to \$500,000 per occurrence and then use group

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

purchasing power to obtain excess coverage through a commercial insurance company up to statutory limits. The City paid \$239,764 in deposits to LAWEX during the fiscal year ended June 30, 2005.

The participants at June 30, 2004, are as follows: Alameda, ABAG, BCJPIA, City of Benicia, CCCSIF, CCCTA, Central San Joaquin Valley Risk Mgmt Authority (CSJVRMA), City of Clovis, City of Coronado, East Bay Regional Park District, City of Encinitas, City of Fremont, City of Gilroy, City of Livermore, City of Lodi, City of Los Gatos, City of Merced, City of Morgan Hill, City of Newark, PARSAC, City of Placentia, PERMA, City of Roseville, City of San Leandro, City of Santee, Small Cities Org. Risk Effort (SCORE), City of South Lake Tahoe, City of Susan City, City of Vacaville, City of Vallejo, Vector Control JPA and City of Vista.

### California Transit Insurance Pool

The City, along with thirty-six other public agencies is a member of California Transit Insurance Pool (CalTIP), a joint powers insurance authority which was formed for the purpose of sharing the risk of property damage, bodily injury, personal injury and public officials errors and omissions losses for public transit systems.

Liability protection coverage is provided under two programs:

Program I applies to members who choose to utilize CalTIP's adjuster and /or those with a \$0 deductible.

Program II applies to members with self-insured retentions who choose to provide their own adjusting services.

CalTIP purchases excess insurance over its \$500,000 retention up to \$20 million per occurrence. Each member is provided with \$5 million in excess of the pooled retention and has the option to choose one or both of two additional layers for the full \$20 million.

CalTIP also provides physical damage coverage to its members. This coverage program is optional for all members and offers damage or loss protection for transit, staff and maintenance vehicles to transit operators. CalTIP self-insures to \$100,000, under which members have the option of five levels of deductible ranging from \$500 to \$10,000 per vehicle. Claims are administered by the CalTIP's adjuster.

The City paid \$135,166 in deposits to CalTIP during the fiscal year ended June 30, 2005. There have been no reductions in insurance coverage from the prior year and there were no insurance settlements in excess of insurance coverage in any of the last three years.

	<b>Program</b>	<b>Self-Insured Retention</b>	<b>Limit (in millions)</b>	<b>Physical Damage</b>
City of Lodi Transit System	I	Prefunded	5	X

CITY OF LODI  
Notes to Basic Financial Statements (continued)  
June 30, 2005

(15) Deficit in Fund Equity

Internal Service Fund - Claims and Benefits - A deficit in fund equity at June 30, 2005, in the amount of \$1,895,488 in the Internal Service Fund is due to the self-insurance liability to cover both incurred and incurred-but-not-reported (IBNR) claims. The City continues its effort to reach the reserves recommended by an actuary and gradually eliminate the deficit in the Internal Service Fund.

(16) Commitments and Contingencies

Litigation and claims - The City is engaged in litigation over its groundwater contamination as a potential responsible party and in litigation with its former outside counsel regarding malpractice and fee claims. The City estimates that it will need to raise \$45 million to cover past costs, past settlements and future obligations and have increased its water rates in an amount sufficient to cover these estimated expenses. The past costs and settlements approximate \$19.5 million at June 30, 2005 and future obligations are estimated to be approximately \$25.5 million. As such, the City Attorney does not anticipate a material effect on the City's financial condition.

The City also faces a false imprisonment claim for a man who spent ten years in prison for a rape he was later found innocent of through DNA testing. However, exposure for fees and judgment is capped at \$500,000 (the amount of the City's self-insured retention). It is anticipated that a wrongful death claim presently pending against the City will be resolved prior to year's end with no payout by the City. As such, the City Attorney does not anticipate a material effect on the City's financial condition from either of these actions.

All other actions against the City are under \$50,000 or have no arguable cost and will therefore not have a material financial effect on the City.

Arbitrage Earnings Rebate Liability - Arbitrage earnings are defined as income earned on the unexpended tax-exempt certificate proceeds in excess of that which would have been earned had the moneys been invested in securities with a yield of the effective rate of the certificates. Currently, arbitrage earnings must be rebated to the United States Treasury every five years from the date of August 18, 1999, for the Electric System Certificates of Participation. The City rebated arbitrage of \$132,928 in November 2004 and there is no cumulative arbitrage liability as of June 30, 2005.

## REQUIRED SUPPLEMENTARY INFORMATION

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**City of Lodi**  
**Required Supplementary Information**  
**Schedule of Funding Progress - Pension Plan**  
**June 30, 2005**  
(in thousands of dollars)

<b>Actuarial Valuation Date</b>	<b>Actuarial Asset Value (A)</b>	<b>Entry Age Actuarial Accrued Liability (B)</b>	<b>Unfunded Actuarial Accrued Liability [(B) - (A)]</b>	<b>Funded Ratio [(A) / (B)]</b>	<b>Covered Payroll (C)</b>	<b>Unfunded Actuarial Liability as Percentage of Covered Payroll {[(B) - (A)]/(C)}</b>
6/30/02	\$ 130,903	\$ 134,344	\$ 3,441	97%	\$ 23,361	14.73%
6/30/03	132,001	149,935	17,934	88%	24,978	71.80%
6/30/04	139,694	165,273	25,579	85%	25,640	99.76%

# SCHEDULE OF REVENUES, EXPENDIT

## REVENUES

Taxes  
Licenses and permits  
Intergovernmental revenues  
Charges for services  
Fines, forfeits and penalties  
Investment and rental income  
Miscellaneous revenue  
Total revenues

## EXPENDITURES

### Current:

General government:  
City Council  
City Manager  
City Clerk  
City Attorney  
Human Resources  
Information Systems  
Community Center  
Community Development  
Finance  
Non Departmental  
Total general government

Public protection:  
Police  
Fire  
Total public protection

Public Works

Library

Parks and recreation

Capital outlay	124,478	124,478	124,478	
Debt service:				
Interest and fiscal charges	48,475	48,475	48,475	
Principal payments	266,499	266,499	266,499	
Total debt service	314,974	314,974	314,974	

Total expenditures	39,260,555	43,952,402	42,862,827	1,089,575
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DEFICIENCY OF REVENUES UNDER EXPENDITURES	(6,124,934)	(9,560,970)	(4,887,392)	4,673,578
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## OTHER FINANCING SOURCES (USES)

Transfers in	6,380,227	5,598,546	6,043,184	444,638
Transfers out	(4,664,782)		(40,928)	(40,928)
Proceeds from capital lease	124,478	124,478	124,478	
Other sources	3,683,237	2,845,910		2,845,910
Total other financing sources (uses)	5,523,160	8,568,934	6,126,734	2,442,200

NET CHANGE IN FUND BALANCE	(601,774)	(992,036)	1,239,342	2,231,378
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FUND BALANCE , beginning of year	3,837,434	1,452,988	1,452,988	
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FUND BALANCE, end of year	3,235,660	460,952	2,692,330	2,231,378
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The note to the required supplementary information is an integral part of this schedule.



CITY OF LODI  
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
STREETS FUND  
Year ended June 30, 2005

	Original	Final	Actual	Variance with Final Budget
REVENUES				
Taxes	886.155	886.155	907.115	20,960
Intergovernmental revenues	\$ 8,482,000	14,788,148	7,280,090	(7,508,058)
Charges for services	1,355,000	1,355,000	2,983,959	1,628,959
Investment and rental income			129,899	129,899
Miscellaneous revenue			24,670	24,670
Total Revenue	10,723,155	17,029,303	11,325,733	(5,703,570)
EXPENDITURES				
Public works				
Capital outlay	9,796,880	14,078,301	7,535,027	6,543,274
Total Expenditures	9,796,880	14,078,301	7,535,027	6,543,274
EXCESS OF REVENUES OVER EXPENDITURES	926,275	2,951,002	3,790,706	839,704
OTHER FINANCING SOURCES (USES)				
Transfers in		5,204	5,204	
Transfers out	(1,411,277)	(1,541,147)	(1,541,147)	
Total other financing sources (uses)	(1,411,277)	(1,535,943)	(1,535,943)	
NET CHANGE IN FUND BALANCE	(485,002)	1,415,059	2,254,763	839,704
FUND BALANCE, BEGINNING OF YEAR	2,576,187	2,719,973	2,719,973	
FUND BALANCE, END OF YEAR	\$ 2,091,185	4,135,032	4,974,736	839,704

The note to the required supplementary information is an integral part of this schedule.

CITY OF LODI  
Notes to the Required Supplementary Information  
June 30, 2005

### Budgetary Data

The City adopts an annual budget for the general and special revenue funds. These budgets are prepared in accordance with generally accepted accounting principles. As part of the City's internal controls, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with the legal provisions embodied in the annual appropriated budget approved by the City Council. The accompanying financial statements present budget and actual data only of funds for which an annual budget was adopted. The budgets of capital projects are primarily "long-term" budgets that emphasize the major programs and capital project plans extending over a number of years. Due to the long-term nature of these projects, "annual" budget and actual comparisons are not considered meaningful. Formal budgetary integration is not employed for Debt Service Funds since effective budgetary control is alternatively achieved through the bond indenture provisions. Accordingly, no budgetary information is included in the accompanying general-purpose financial statements for capital projects and debt service funds.

The City Council follows the following procedures in establishing the budgetary data reflected in the accompanying general-purpose financial statements:

#### Original Budget

On or prior to the first regular Council meeting in June of each year, the City Manager submits to the City Council a proposed Financial Plan and Budget for the fiscal year commencing July 1. The budget includes proposed expenditures and the means of financing them.

Budgeted revenues are adopted by the City Council at the time the budget is approved. Budgeted revenues are modified when the tax base changes, when fees are modified or when new revenue sources are identified.

Public hearings are conducted during meetings of the City Council to obtain citizens' comments. Prior to July 1, the budget is legally enacted through passage of a resolution.

#### Final Budget

The final budgetary data presented in the basic financial statements reflects the following changes to the original budget:

- Budgeted expenditures represent original appropriations adjusted by budget transfers and appropriation amendments. The legal level of budgetary control (that is, the level at which expenditures can not legally exceed the appropriated

amount) is at the department level. The operating budget is prepared and controlled at the department level (e.g., city clerk, city manager, etc.) for the General Fund. Special revenue fund expenditures, including transfers out, are approved by Council at the fund level

- The City Manager may transfer appropriations from one activity to another within a department without approval from the City Council. All other appropriation adjustments during the year, whether transfers, increases or decreases, require City Council approval.

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COMBINING AND INDIVIDUAL FUND STATEMENTS  
AND SCHEDULES

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CITY OF Lodi  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2005

	Special Revenue	Capital Projects	Total
<u>Assets</u>			
Cash and investments	\$ 452,933	5,712,463	\$ 6,165,396
Restricted assets		1,690,573	1,690,573
Receivables:			
Accounts	1,233		1,233
Interest	3,530	66,691	70,221
Due from other funds	18,972		18,972
Due from other governmental agencies	539,022	389.950	928.972
Loan receivable	1,084,000		1,084,000
Advances to other funds		676.770	676,770
Total assets	\$ 2,099,690	8,536,447	\$ 10,636,137
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable and other liabilities	\$ 96.778	45,752	\$ 142,530
Due to other funds	526,487		526,487
Advances from other funds		1,476,133	1,476,133
Deferred revenue	1,084,000	389.950	1,473,950
Total liabilities	1,707,265	1,911,835	3,619,100
Fund Balances :			
Reserved for encumbrances	1.680	298,072	299.752
Reserved for advances to other funds		676,770	676,770
Unreserved-designated for specific projects and programs	390,745	5,649,770	6,040,515
Total fund balances	392.425	6,624,612	7,017,037
Total liabilities and fund balances	\$ 2,099,690	8,536,447	\$ 10,636,137

CITY OF LODI  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
Year ended June 30.2005

	Special Revenue	Debt Service	Capital Projects	Total
Revenues:				
Intergovernmental revenues	\$ 1,119,509		14,600	\$ 1,134,109
Charges for services			3,773,974	3,773,974
Fines, forfeits and penalties	3,700			3,700
Investment and rental income	11,428		272,085	283,513
Miscellaneous revenue			259,135	259,135
Total revenues	<u>1,134,637</u>		<u>4,319,794</u>	<u>5,454,431</u>
Expenditures:				
Current:				
Public protection	306,255			306,255
Public works	852,629		79,310	931,939
Parks and recreation	18,972			18,972
Capital outlay	72,534		1,775,903	1,848,437
Debt service:				
Interest and fiscal charges		1,187,974	408,980	1,596,954
Principal payments		588,120		588,120
Total expenditures	<u>1,250,390</u>	<u>1,776,094</u>	<u>2,264,193</u>	<u>5,290,677</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(115,753)</u>	<u>(1,776,094)</u>	<u>2,055,601</u>	<u>163,754</u>
Other financing sources (uses):				
Transfers in	118,580	1,776,094	74,307	1,968,981
Transfers out			(2,427,484)	(2,427,484)
Total other financing sources (uses)	<u>118,580</u>	<u>1,776,094</u>	<u>(2,353,177)</u>	<u>(458,503)</u>
Net change in fund balances	2,827		(297,576)	(294,749)
Fund balances, beginning of year	<u>389,598</u>		<u>6,922,188</u>	<u>7,311,786</u>
Fund balances, end of year	<u>\$ 392,425</u>		<u>6,624,612</u>	<u>\$ 7,017,037</u>

NONMAJOR GOVERNMENTAL FUNDS

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SPECIAL REVENUE FUNDS



## NONMAJOR GOVERNMENTAL FUNDS

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Nonmajor Governmental Funds include:

Special Revenue Funds account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditures for specified purposes, other than those for major capital projects;

Debt Service Fund account for the accumulation of resources for the repayment of principal and interest on general long-term debt;

Capital Project **Funds** account for the financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.

## **SPECIAL REVENUE FUNDS**

### **Special Grants**

This fund has been established to account for the receipt of smaller grants from Federal and State sources.

### **Public Safety**

This fund was established to account for the revenues and expenditures related to the City's share of property forfeited by persons convicted of possession and selling illegal drugs and the State of California auto.theft prosecution moneys.

### **Transportation**

This fund was established to account for the receipt of moneys from the State of California apportioned to the City for transportation purposes. The State has designated 1/4% of the 6% sales tax levied statewide for local transportation purposes. Funding for this program was provided during the **1971** legislative session with the enactment of the Transportation Development Act, which extended the 6% sales tax to include purchases of gasoline. Revenues allocated to the City of Lodi under this program are divided into two categories: Article 8 funds, which are restricted for the improvement and maintenance of street **systems**; and Article **4** funds, which are restricted for public transit systems.

### **HOME Program and Community Development Block Grants**

This fund was established to account for the City's HOME Program that provides adequate and affordable housing for low and very low-income residents, and Community Development Block Grants provided to the City principally for low and moderate income residents to develop a suitable living environment and expand economic opportunities.

CITY OF LODI  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS  
June 30, 2005

	Special Grants	Public Safety	Transportation	HOME Program & Community Development Block Grants	Total
<b>ASSETS</b>					
Cash and Investments	\$	344,544	108,389	\$	452,933
Receivables:					
Accounts		1,233			1,233
Interest		2,740	790		3,530
Due from other funds		18,972			18,972
Due from other governmental agencies	18,972			520,050	539,022
Loan receivable				<b>1,084,000</b>	<b>1,084,000</b>
<b>TOTAL ASSETS</b>	<b>\$ 18,972</b>	<b>367,489</b>	<b>109,179</b>	<b>1,604,050</b>	<b>\$ 2,099,690</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable and other liabilities	\$	83,973	270	12,535	\$ 96,778
Due to other funds	18,972			507,515	526,487
Advances from other funds					
Deferred revenue				1,084,000	<b>1,084,000</b>
<b>TOTAL LIABILITIES</b>	<b>18,972</b>	<b>83,973</b>	<b>270</b>	<b>1,604,050</b>	<b>1,707,265</b>
<b>FUND BALANCES</b>					
Fund balances:					
Reserved for encumbrances			1,680		<b>1,680</b>
Unreserved designated for specific projects and programs		283,516	107,229		390,745
<b>TOTAL FUND BALANCES</b>		<b>283,516</b>	<b>108,909</b>		<b>392,425</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 18,972</b>	<b>367,489</b>	<b>109,179</b>	<b>1,604,050</b>	<b>\$ 2,099,690</b>

CITY OF LODI  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS  
 Year ended June 30,2005

	Special Grants	Public Safety	Transportation	HOME Program & Community Development Block Grants	Total
REVENUES					
Intergovernmental revenues	\$ 18,972	206,881	41,027	852,629	\$ 1,119,509
Charges for services					
Fines, forfeits and penalties		3,700			3,700
Investment and rental income		8,485	2,943		11,428
Miscellaneous revenue					
Total revenues	<u>18,972</u>	<u>219,065</u>	<u>43,970</u>	<u>852,629</u>	<u>1,134,637</u>
EXPENDITURES					
Current					
Public protection		306,255			306,255
Public works				852,629	852,629
Parks and recreation	18,972				18,972
Capital outlay			72,534		72,534
Total expenditures	<u>18,972</u>	<u>306,255</u>	<u>72,534</u>	<u>852,629</u>	<u>1,250,390</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES		(87,189)	(28,564)		(115,753)
OTHER FINANCING SOURCES					
Transfers in		20,905	97,675		118,580
NET CHANGE IN FUND BALANCES		(65,284)	59,111		2,827
FUND BALANCES, beginning of year		349,800	39,798		389,598
FUND BALANCES, end of year	\$	283,516	108,909		\$ 392,425

CITY OF LODI  
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS  
Year ended June **30,2005**

	SPECIAL GRANTS		
	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
Intergovernmental revenues	\$ 18,972	18,972	
Total Revenue	18,972	18,972	
EXPENDITURES			
Current			
Parks and recreation	18,972	18,972	
Total Expenditures	18,972	18,972	
NET CHANGE IN FUND BALANCE			
FUND BALANCE, BEGINNING OF YEAR			
FUND BALANCE, END OF YEAR			

**CITY OF LODI**  
**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS**  
**Year ended June 30, 2005**

	PUBLIC SAFETY		
	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
Intergovernmental revenues	\$ 148,737	206,881	58,144
Fines, forfeits and penalties		3,700	3,700
Investment and rental income		8,485	8,485
Total Revenue	148,737	219,066	70,329
EXPENDITURES			
Current			
Public protection	444,277	306,255	138,022
Total Expenditures	444,277	306,255	138,022
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(295,540)	(87,189)	208,351
OTHER FINANCING SOURCES			
Transfers in	20,905	20,905	
NET CHANGE IN FUND BALANCE	(274,635)	(66,284)	208,351
FUND BALANCE, BEGINNING OF YEAR	349,800	349,800	
FUND BALANCE, END OF YEAR	\$ 75,165	283,516	208,351

SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
NONMAJOR GOVERNMENTAL FUNDS - **SPECIAL** REVENUE FUNDS  
Year ended June 30, 2005

	TRANSPORTATION		
	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
Intergovernmental revenues	\$ 39,367	41,027	1,660
Investment and rental income		2,943	2,943
Total Revenue	39,367	43,970	4,603
EXPENDITURES			
Capital outlay	115,400	72,534	42,866
Total Expenditures	115,400	72,534	42,866
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(76,033)	(28,564)	47,469
OTHER FINANCING SOURCES			
Transfers in	97,675	97,675	
NET CHANGE IN FUND BALANCE	21,642	69,111	47,469
FUND BALANCE, BEGINNING OF YEAR	39,798	39,798	
FUND BALANCE, END OF YEAR	\$ 61,440	108,909	47,469

CITY OF LODI  
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS  
Year ended June 30, 2005

HOME PROGRAM and COMMUNITY DEVELOPMENT BLOCK GRANTS			
	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
Intergovernmental revenues	\$ 3,499,788	852,629	(2,647,159)
Total Revenue	3,499,788	852,629	(2,647,159)
EXPENDITURES			
Current			
Public works	3,499,788	852,629	2,647,159
Total Expenditures	3,499,788	852,629	2,647,159
NET CHANGE IN FUND BALANCE			
FUND BALANCE, BEGINNING OF YEAR			
FUND BALANCE, END OF YEAR	\$		



NONMAJOR GOVERNMENTAL FUNDS

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CAPITAL PROJECT FUNDS

## **CAPITAL PROJECT FUNDS**

### **Vehicle and Equipment**

This fund was established to account for the financing and replacement of vehicles and equipment for all funds of the City with the exception of the Enterprise Funds. Financing is primarily provided through operating transfers from other funds, interest earnings and sales of surplus property.

### **Library**

This fund is used to account for the acquisition, construction and installation of capital facilities for the Library

### **Subdivision**

This fund is used to account for construction and installation projects dealing with subdivision work for others

### **Hutchins Street Square**

When the old Lodi High School burnt down, the City purchased the property and renamed it Hutchins Street Square. The Old Lodi High Site Foundation was established and this organization organizes events to raise money for the capital restoration of Hutchins Street Square.

### **Capital Outlay Reserve**

This fund was established to account for the entire City's construction projects and capital purchases in excess of \$10,000 with the exception of those funded through Enterprise Funds. Financing is provided primarily by operating transfers from other funds and from State and Federal grants.

### **Lodi Lake**

This fund was established to account for moneys charged for activities held at Lodi Lake. The Council designated the moneys to be used for Lodi Lake capital projects.

CITY OF LODI  
**COMBINING BALANCE SHEET**  
 NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECT FUNDS  
 June 30, 2005

	Vehicle and Equipment	Library	Subdivision	Hutchins Street Square	Capital Outlay Reserve	Lodi Lake	Total
<b>ASSETS</b>							
Cash and investments	\$ 157,521	15,212	300.339	3,517	5,190,159	45,655	\$ 5,712,463
Restricted assets					1,690,573		1,690,573
Receivables							
Interest		118			66,225	348	66,691
Due from other governmental agencies					389,950		389,950
Advances to other funds					676,770		676,770
<b>TOTAL ASSETS</b>	<b>\$ 157,521</b>	<b>15,330</b>	<b>300.339</b>	<b>3,577</b>	<b>8,013,677</b>	<b>46,003</b>	<b>\$ 8,536,447</b>
<b>LIABILITIES</b>							
Accounts payable and other liabilities	\$ 5.205				39,639	908	\$ 45,752
Advances from other funds					1,476,133		1,476,133
unearned revenue					389,950		389,950
<b>TOTAL LIABILITIES</b>	<b>5.205</b>				<b>1,905,722</b>	<b>908</b>	<b>1,911,835</b>
<b>FUNDBALANCES</b>							
Fund balances							
Resewed for encumbrances	2,141	2,400			289,065	4,466	298,072
Reserved for advances to other funds					676,770		676,770
Unreserved-designated for specific projects and programs	150,175	12,930	300.339	3,577	5,142,120	40,629	5,649,770
<b>TOTAL FUND BALANCES</b>	<b>152,316</b>	<b>15,330</b>	<b>300.339</b>	<b>3,577</b>	<b>6,107,955</b>	<b>45,095</b>	<b>6,624,612</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 157,521</b>	<b>15,330</b>	<b>300.339</b>	<b>3,577</b>	<b>8,013,677</b>	<b>46,003</b>	<b>\$ 8,536,447</b>

CITY OF LODI  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECT FUNDS  
 Year ended June 30, 2005

	Vehicle and Equipment	Library	Subdivision	Hutchins Street Square	Capital Outlay Reserve	Lodi Lake	Total
REVENUES							
Intergovernmental revenues	\$				14,600	\$	14,600
Charges for services					3,773,974		3,713,914
Investment and rental income		44			269,659	2,362	212,085
Miscellaneous revenue	55,265				170,000	33,810	259,135
<b>Total revenues</b>	<b>55,265</b>	<b>44</b>			<b>4,228,233</b>	<b>36,252</b>	<b>4,319,794</b>
EXPENDITURES							
Current							
Public works	64,710				14,600		79,310
Capital outlay	251,160	5,491			1,412,810	106,442	1,775,903
Interest and fiscal charges					408,980		408,980
<b>Total expenditures</b>	<b>315,810</b>	<b>5,491</b>			<b>1,836,390</b>	<b>106,442</b>	<b>2,264,193</b>
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	(260,605)	(5,447)			2,391,843	(70,190)	2,055,601
OTHER FINANCING SOURCES (USES)							
Transfers in	51,307				18,000	5,000	74,307
Transfers out	(110,454)				(2,417,030)		(2,427,484)
<b>Total other financing sources (uses)</b>	<b>40,653</b>				<b>(2,399,030)</b>	<b>5,000</b>	<b>(2,353,177)</b>
NET CHANGE IN FUND BALANCES	(219,152)	(5,447)			(7,187)	(65,190)	(291,576)
FUND BALANCES, BEGINNING OF YEAR	312,068	20,771	300,339	3,577	6,115,142	110,265	6,922,168
FUND BALANCES, END OF YEAR	\$ 152,316	15,330	300,339	3,577	6,107,955	45,095	\$ 6,824,812

## FIDUCIARY FUNDS

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### **Private-purpose Trust Fund**

This fund is used to account for trust agreements under which the principal and income benefit individuals, private organizations or other governments.

### **Agency Fund**

This fund was established to account for special assessments collected on the property tax roll by the City on behalf of the property owners within the IndustrialWay Beckman Districts and the Downtown and Cherokee Lane Districts.

CITY OF LODI  
 COMBINING STATEMENT OF FUDUCIARY NET ASSETS  
 PRIVATE-PURPOSE TRUST FUNDS  
**June 30, 2005**

	Private-Purpose Trust Funds			Total
	Private Sector	Hutchins Street Square Bequest		
ASSETS				
Cash and investments	\$ 693,023	1,304	\$	694,327
TOTAL ASSETS	693,023	1,304		694,327
NET ASSETS	\$ 693,023	1,304	\$	694,327

CITY OF LODI  
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
Year ended June 30,2005

	Private-Purpose Trust Funds		
	Private Sector	Hutchins Street Square Bequest	Total
ADDITIONS			
Investment income and donations	\$ 55,775	901	\$ 56,676
Total additions	55,775	901	56,676
DEDUCTIONS			
Current			
Library	6,238		6,238
Total deductions	6,238		6,238
CHANGE IN NET ASSETS	49,537	901	50,438
NET ASSETS, BEGINNING OF YEAR	643,486	403	643,889
NET ASSETS, END OF YEAR	\$ 693,023	1,304	\$ 694,327

CITY OF LODI  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUNDS  
Year ended June 30, 2005

	Special Assessments			
	balance 7/1/04	Additions	Deductions	Balance 6/30/05
<b>ASSETS</b>				
Cash and investments	\$ 378,650	369,429	357,277	\$ 390,802
Special assessment receivable	39,963	53,580	39,963	53,580
Interest receivable	1,149	2,923	1,149	2,923
Other assets		1,283		1,283
TOTAL ASSETS	\$ <u>419,762</u>	<u>427,215</u>	<u>398,389</u>	\$ <u>448,588</u>
<b>LIABILITIES</b>				
Agency obligations	\$ <u>419,762</u>	<u>28,826</u>		\$ <u>448,588</u>
TOTAL LIABILITIES	\$ <u>419,762</u>	<u>28,826</u>		\$ <u>448,588</u>



## STATISTICAL TABLES

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UNAUDITED

CITY OF LODI  
GOVERNMENT-WIDE EXPENSES BY FUNCTION  
LAST TEN FISCAL YEARS  
(Amounts in Thousands)

Fiscal Year	General Government	Public Protection	Public Works	Library	Parks & Recreation	Interest On Long-term Debt	Electric	Wastewater	Water	Transit	Total
2002-03	\$ 12,238	\$ 16,632	\$ 10,946	\$ 1,454	\$ 3,989	\$ 1,215	\$ 51,388	\$ 6,141	\$ 12,879	\$ 5,389	\$ 122,271
2003-04	13,167	19,163	11,868	1,409	4,095	1,267	55,943	6,297	7,489	3,064	123,762
2004-05	9,958	22,253	12,377	1,484	4,565	1,617	57,308	10,653	11,748	2,987	134,950

Information is available beginning in fiscal year 2003, when the City implemented GASB 34 "Basic Financial Statements - and Management Discussions and Analysis - for State and Local Governments."

City Finance Department

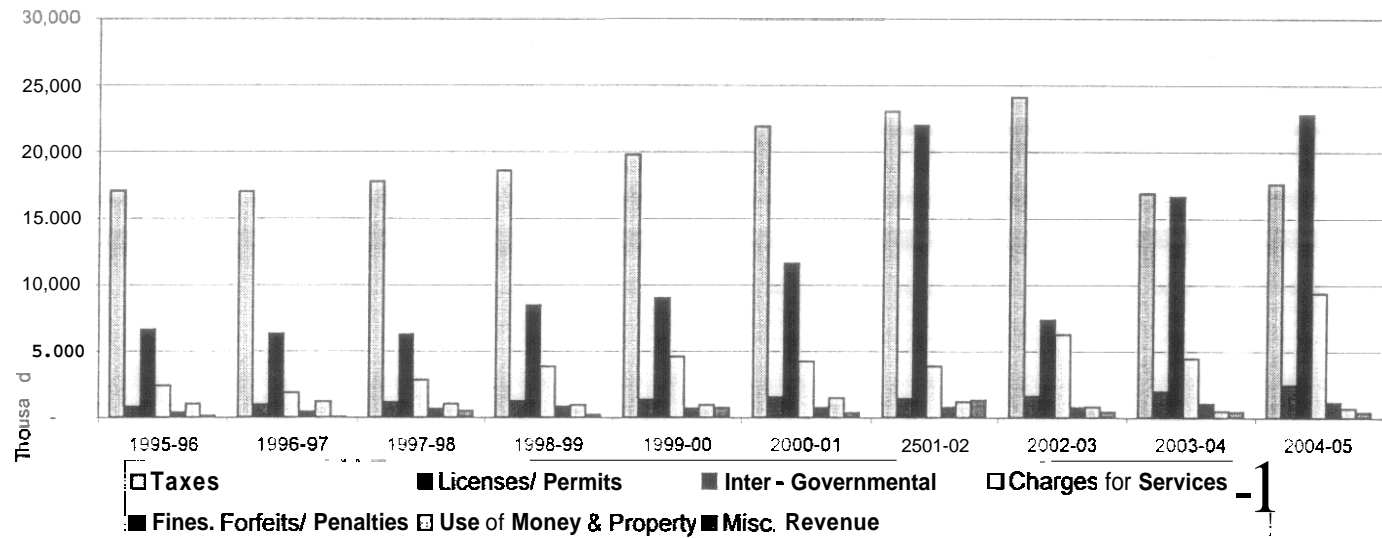
CITY OF LODI  
GOVERNMENT-WIDE REVENUES  
LAST TEN FISCAL YEARS  
(Amounts In Thousands)

Fiscal Year	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Motor Vehicle In-Lieu	Investment Earnings	Other	Litigation Settlement/Gain	Total
2002-03	\$ 65,331	\$ 13,727	\$ 13,380	\$ 15,244	\$ 3,430	\$ 6,726	\$ 1,701	\$ 2,728	\$ 122,327
2003-04	70,538	13,402	22,162	16,759	3,363	2,368	0.22 *	865	132,681
2004-05	75,651	18,118	20,960	17,377		2,030	0.01 *	24,427	161,604

Note: Information is available beginning in fiscal year 2003, when the City implemented GASB 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments."

SOURCE: City Finance Department

**CITY OF LODI**  
**GENERAL GOVERNMENTAL REVENUES BY SOURCE**  
**LAST TEN FISCAL YEARS**  
**(Amounts in Thousands)**

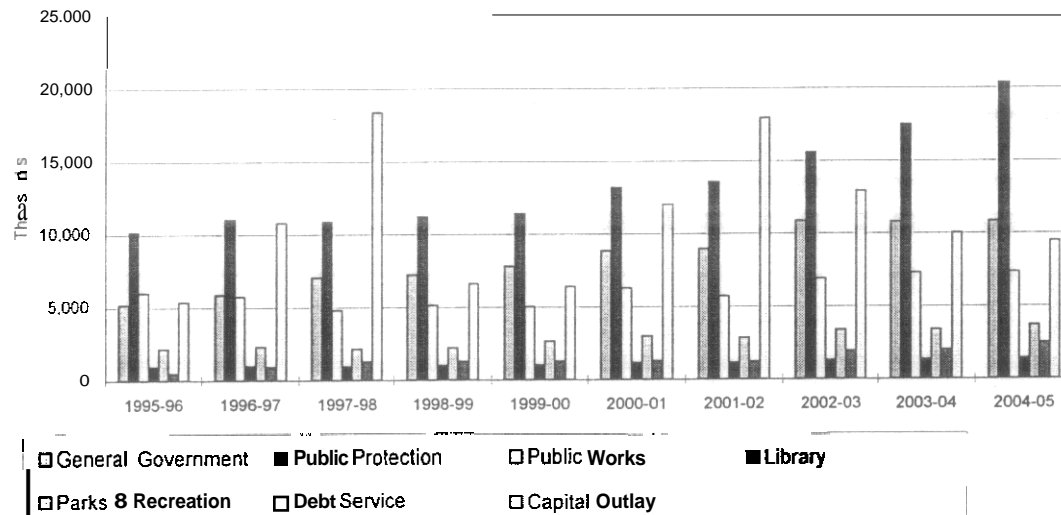


Fiscal Year	Taxes	Licenses/ Permits	Inter - Governmental	Charges for Services	Fines. Forfeits/ Penalties	Use of Money & Property	Misc. Revenue	Total
1995-96	\$ 17,070	\$ 842	\$ 6,642	\$ 2,428	\$ 421	\$ 1,063	\$ 140	\$ 28,606
1996-97	17,029	1,012	6,316	1,908	453	1,216	80	28,014
1997-98	17,790	1,163	6,291	2,871	662	1,060	524	30,381
1998-99	18,594	1,267	8,493	3,874	878	982	243	34,331
1999-00	19,801	1,406	9,054	4,611	714	982	764	37,332
2000-01	21,909	1,592	11,641	4,249	765	1,509	383	42,048
2001-02	23,043	1,464	22,000	3,888	806	1,234	1,349	53,784
2002-03	24,100	1,669	7,385	6,272	803	832	453	41,514
2003-04	16,909	2,021	16,657	4,478	1,085	537	473	42,160
2004-05	17,606	2,511	22,834	9,404	1,190	752	458	54,755

General Governmental Revenues include General. Special Revenue. Debt Service and Capital Projects Funds. Excludes Expendable Trusts

SOURCE: City Finance Department

**CITY OF LODI**  
**GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION**  
**LAST TEN FISCAL YEARS**  
**(Amounts in Thousands)**



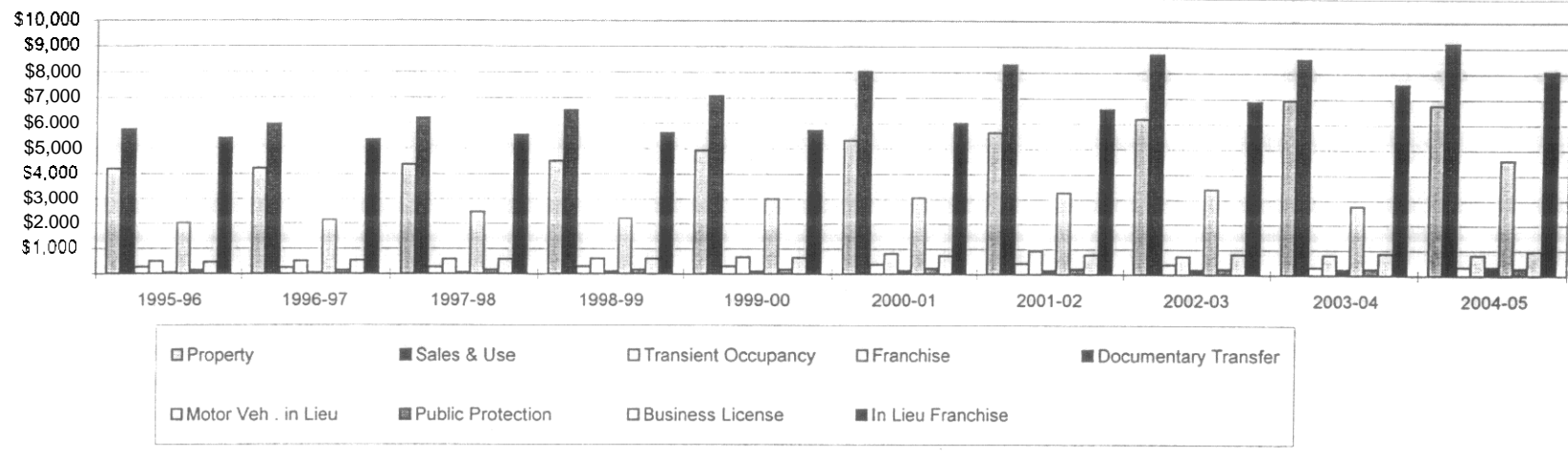
Fiscal Year	General Government	Public Protection	Public Works	Library	Parks & Recreation	Debt service	Capital Outlay	Total
1995-96	5,217	10,172	6,012	954	2,198	500	5,378	30,431
1996-97	5,662	11,059	5,749	1,012	2,312	939	10,810	37,763
1997-98	7,068	10,896	4,810	966	2,174	1,266	18,383	45,585
1998-99	7,239	11,225	5,151	1,030	2,230	1,262	6,640	34,797
1999-00	7,813	11,430	5,039	1,040	2,670	1,262	6,420	35,694
2000-01	6,862	13,190	6,312	1,184	2,999	1,265	12,045	45,877
2001-02	8,987	13,562	5,741	1,158	2,860	1,233	17,948	51,489
2002-03	10,674	15,597	6,926	1,316	3,385	1,950	12,942	52,990
2003-04	10,615	17,491	7,303	1,356	3,412	2,004	10,041	52,422
2004-05	10,858	20,351	7,361	1,420	3,691	2,500	9,508	55,689

General Governmental Expenditures includes General, Special Revenue, Debt Service and Capital Projects Funds.

Excludes Expendable Trusts.

SOURCE: City Finance Department

**CITY OF LODI**  
**GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE**  
**LAST TEN FISCAL YEARS**  
**(Amounts in Thousands)**



Fiscal Year	Property	Sales & Use	Transient Occupancy	Franchise	Documentary Transfer	Motor Veh. in Lieu	Public Protection	Business License	In Lieu Franchise	Total (1)
1995-96	\$ 4,206	\$ 5,763	\$ 278	\$ 503	\$ 75	\$ 2,023	\$ 154	\$ 470	\$ 5,413	\$ 16,885
1996-97	4,225	5,950	249	524	66	2,144	154	541	5,346	19,201
1997-98	4,374	6,205	278	586	77	2,478	180	593	5,546	20,317
1998-99	4,517	6,523	305	618	119	2,221	180	612	5,627	20,722
1999-00	4,932	7,095	318	675	116	3,006	196	658	5,721	22,719
2000-01	5,322	8,026	390	820	158	3,051	242	736	6,015	24,762
2001-02	5,641	8,300	439	931	172	3,276	231	767	6,569	26,346
2002-03	6,191	6,709	400	730	207	3,430	247	822	6,895	27,631
2003-04	6,946	6,533	317	800	240	2,767	264	874	7,580	28,323
2004-05	6,771	9,163	352	821	353	4,606	304	982	6,097	31,469

(1) General governmental tax revenues are included in taxes, licenses and permits, intergovernmental revenues and miscellaneous revenue of the City's General Fund.

SOURCE: City Finance Department

**C I N OF LODI  
SECURED TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS  
(Amounts in Thousands)**



Fiscal Year	Total Tax Levy	current Year's Tax Collections	Percent of Collections to Tax Levy	Delinquent Tax Collections	Total Tax Collections	Percent of Total Collections to Tax Levy
1996	\$ 3,781	\$ 3,615	95.6%	\$	\$ 3,615	95.6%
1997	3,627	3,682	96.2%		3,682	96.2%
1998	4,444	4,433	99.8%		4,433	99.8%
1999	4,653	4,578	98.4%		4,578	98.4%
2000	5,056	4,917	97.3%		4,917	97.3%
2001	5,182	5,118	98.8%		5,118	98.8%
2002	5,757	5,640	98.0%		5,640	98.0%
2003	5,832	5,408	92.7%		5,408	92.7%
2004	6,570	5,784	87.7%		5,764	87.7%
2005	7,057	7,070	100.2%		7,070	100.2%

SOURCE: County Auditor-Controller

CITY OF LODI  
 ASSESSED FULL CASH VALUE OF ALL TAXABLE PROPERTY  
 LAST TEN FISCAL YEARS  
 (Amounts in Thousands)

<u>Fiscal Year</u>	<u>Secured Roll</u>	<u>Utility Roll</u>	<u>Unsecured Roll</u>	<u>Tax Roll</u>	<u>Less Exemptions</u>	<u>Net Tax Roll</u>
1995-96	\$ 2,427,757	\$ 3,560	\$ 125,011	\$ 2,556,328	\$ 170,899	\$ 2,385,429
1996-97	2,463,536	3,557	125,907	2,593,000	172,945	2,420,055
1997-98	2,515,478	3,699	129,396	2,648,573	176,500	2,472,073
1998-99	2,574,622	3,826	146,345	2,724,793	179,835	2,544,958
1999-00	2,707,343	3,525	163,299	2,874,167	183,294	2,690,873
2000-01	2,880,201	3,484	177,040	3,060,725	185,473	2,875,252
2001-02	3,096,937	3,379	198,678	3,298,994	190,252	3,108,742
2002-03	3,381,945	3,352	207,095	3,592,392	200,957	3,391,435
2003-04	3,619,116	3,893	202,785	3,825,794	212,102	3,613,692
2004-05	3,877,398	3,782	215,469	4,096,649	217,077	3,879,572

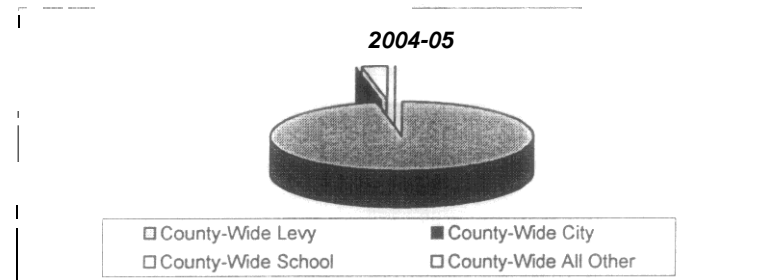
  

<u>Fiscal Year</u>	<u>Land</u>	<u>Improvements</u>	<u>Personal Property</u>	<u>Total</u>	<u>Less Exemptions</u>	<u>Net Assessed Value</u>
1995-96	\$ 691.116	\$ 1,654,842	\$ 210.370	\$ 2,556,328	\$ 170,899	\$ 2,385,429
1996-97	709,296	1,673,877	209,827	2,593,000	172,945	2,420,055
1997-98	728,900	1,705,635	214,038	2,648,573	176,500	2,472,073
1998-99	756,166	1,748,387	220,240	2,724,793	179,835	2,544,958
1999-00	787,249	1,847,800	239,118	2,874,167	183,294	2,690,873
2000-01	832,788	1,982,668	245,269	3,060,725	185,473	2,875,252
2001-02	889,262	2,164,121	245,611	3,298,994	190,252	3,108,742
2002-03	960,168	2,366,887	265,339	3,592,392	200,957	3,391,435
2003-04	1,027,462	2,549,860	248,472	3,825,794	212,102	3,613,692
2004-05	1,107,776	2,739,061	249,812	4,096,649	217,077	3,879,572

Source: San Joaquin County Assessor's Office



**CITY OF LODI**  
**PROPERTY TAX RATES -- DIRECT & OVERLAPPING GOVERNMENTS**  
**LAST TEN FISCAL YEARS**  
**Per 1100.00 of Assessed Value**



Fiscal Year	Basic County-Wide Levy	City	School	All Other	Total
1995-96	1.0000	0.0123	0.0028	0.0034	1.0185
1996-97	1.0000	0.0000	0.0022	0.0034	1.0056
1997-98	1.0000	0.0000	0.0019	0.0034	1.0053
1998-99	1.0000	0.0000	0.0001	0.0034	1.0035
1999-00	1.0000	0.0000	0.0002	0.0034	1.0036
2000-01	1.0000	0.0000	0.0002	0.0000	1.0002
2001-02	1.0000	0.0000	0.0002	0.0000	1.0002
2002-03	1.0000	0.0000	0.0487	0.0000	1.0487
2003-04	1.0000	0.0000	0.0475	0.0000	1.0475
2004-05	1.0000	0.0000	0.0311	0.0000	1.0311

SOURCE: San Joaquin County Auditor/Controller's Office

C I N OF LODI  
SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS  
LAST TEN FISCAL YEARS  
(Amounts in Thousands)

<u>Fiscal Year</u>	<u>current Assessments Due</u>	<u>Current Assessments Collected</u>	<u>Total Collection As Percent of current Assessments Due</u>	<u>Total Outstanding Current and Delinquent Assessments</u>
1995-96	51	50	98.0%	
1996-97	125	125	100.0%	
1997-98			0.0%	
1998-99			0.0%	
1999-00			0.0%	
2000-01			0.0%	
2001-02			0.0%	
2002-03			0.0%	
2003-04			0.0%	
2004-05			0.0%	

SOURCE City Finance Department

CITY OF LODI  
 RATIO OF NET GENERAL BONDED DEBT  
 TO TAXABLE ASSESSED VALUE AND NET BONDED DEBT PER CAPITA  
 LAST TEN FISCAL YEARS  
 (Amounts in Thousands)

Fiscal Year	Population	Gross Assessed Value	Gross Bonded Debt	Debt Payable From Enterprise Revenue	Net Bonded Debt	Percent of Net Bonded Debt to Assessed Value	Net Bonded Debt Per capita
1995-96	54	2,556,328	15,078	10,078	5,000	0.1956%	92.59
1996-97	55	2,593,001	24,948	9,978	14,970	0.5773%	272.18
1997-98	56	2,648,573	24,372	9,672	14,500	0.5475%	258.93
1998-99	57	2,724,793	23,776	9,762	14,014	0.5143%	245.86
1999-00	58	2,874,167	23,146	9,636	13,510	0.4700%	232.93
2000-01	59	3,060,725	72,911	59,930	12,981	0.4241%	220.02
2001-02	59	3,298,994	101,675	74,930	26,745	0.8107%	453.31
2002-03	60	3,592,392	143,748	117,733	26,015	0.7242%	433.58
2003-04	60	3,825,793	174,205	148,675	25,530	0.6673%	425.50
2004-05	60	4,096,649	151,645	126,615	25,030	0.6110%	417.17

SOURCE: City Finance Department

CITY OF LODI  
COMPUTATION OF DIRECT AND OVERLAPPING GENERAL BONDED DEBT  
June 30, 2005

		<u>Total COP</u>	<u>Percent Applicable</u>		<u>City's Share of Debt</u>
DIRECT DEBT:					
CERTIFICATE OF PARTICIPATION	\$	25,030,000	100.00%	\$	25,030,000
OVERLAPPING DEBT:					
NONE		<u>0</u>			<u>0</u>
Total	\$	<u><u>25,030,000</u></u>		\$	<u><u>25,030,000</u></u>

DEBT RATIOS  
June 30, 2005

Ratio of Direct Overlapping Debt to Assessed Full Cash Value = 25,030,000 / 4,096,649,000	0.61%
Direct and Overlapping Debt Per Capita = 25,030,000 / 62,467	\$ 420
Taxable Assessed Full Cash Values Per Capita = 4,096,649,000 / 62,467	\$ 65,581

SOURCE: City Finance Department

**CITY OF LODI  
COMPUTATION OF LEGAL DEBT MARGIN  
June 30, 2005**

<b>Assessed Full Cash Value as of June 30, 2004 (1)</b>	<b>\$ <u>4,096,649,000</u></b>
<b>Debt Limit - 15 Percent of Assessed Full Cash Value (2)</b>	<b>\$ 614,497,350</b>
<b>Amount of Debt Applicable to Debt Limit</b>	<b><u>0</u></b>
<b>LEGAL DEBT MARGIN</b>	<b>\$ <u>614,497,350</u></b>

(1) Assessed Value before exemptions applicable to 2004-05 Tax Roll

(2) Section 43605 California Government Code

**SOURCE:** San Joaquin County Auditor/Controller's Office  
City Finance Department

CITY OF LODI  
 RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR  
 GENERAL BONDED DEBT TO TOTAL GOVERNMENTAL EXPENDITURES  
 LAST TEN FISCAL YEARS  
 (Amounts in Thousands)

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Total Governmental Expenditures</u>	<u>Percent of Debt Service to Governmental Expenditures</u>
1995-96	\$ 118	\$ 4	\$ 122	\$ 30,431	0.40%
1996-97	*			37,763	
1997-98	470	818	1,288	45,585	2.83%
1998-99	485	797	1,282	34,797	3.68%
1999-00	505	777	1,282	35,694	3.59%
2000-01	530	755	1,285	45,877	2.80%
2001-02	555	679	1,234	51,489	2.40%
2002-03	730	1,220	1,950	52,990	3.68%
2003-04	485	1,186	1,671	52,422	3.19%
2004-05	500	1,172	1,672	55,689	3.00%

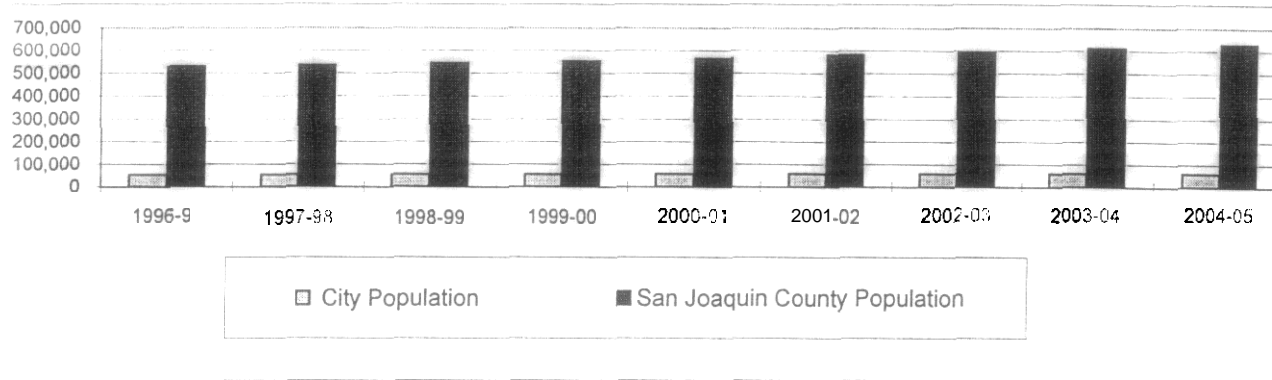
\*Zero balances occurred in 1996-97 due to general obligation bonds paid off in 1995-96.  
 SOURCE: City Finance Department

**CITY OF LODI  
REVENUE BOND COVERAGE  
LAST TEN FISCAL YEARS**

<b>Fiscal Year</b>	<b>Gross Revenue</b>	<b>Direct Operating Expense</b>	<b>Net Revenue Available For Debt Service</b>	<b>Current Fiscal Year's Debt Service Requirements</b>			
				<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Coverage</b>
1995-96	3,339,315	3,301,761	37,554	110,000	696,357	806,357	0.05
1996-97	3,444,597	2,863,017	581,580	115,000	688,818	803,818	0.72
1997-98	3,946,058	2,913,965	1,032,089	120,000	682,218	802,218	1.29
1998-99	3,935,006	2,957,162	977,844	125,000	675,030	800,030	1.22
1999-00	3,874,750	3,146,931	727,819	140,000	666,770	806,770	0.90
2000-01	4,697,052	4,336,384	360,668	145,000	858,070	603,070	0.45
2001-02	4,138,729	4,807,716	(668,987)	150,000	648,920	798,920	(0.84)
2002-03	6,760,379	4,380,114	2,380,265	160,000	639,000	799,000	2.98
2003-04	59,458,915	51,244,047	8,214,868	2,325,000	3,975,207	6,300,207	1.30
2004-05	61,993,861	55,306,458	6,687,403	6,435,000	5,355,966	11,790,966	0.57

**SOURCE** City of Lodi Finance Department

**CITY OF LODI  
DEMOGRAPHIC STATISTICS  
LAST TEN FISCAL YEARS**



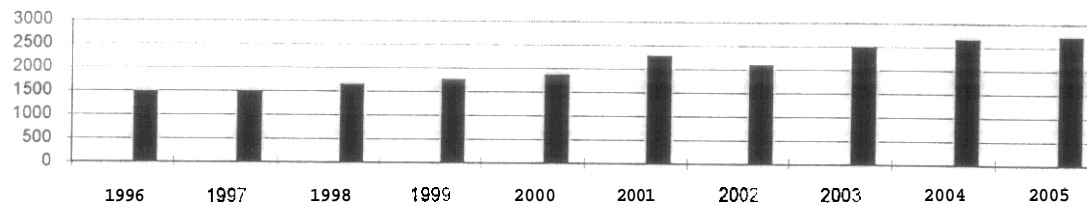
Fiscal Year	Square Miles	City Population	Population percent Change	San Joaquin County Population	Population percent of County	Rank in State of California Cities
1995-96	12.32	54,473	1.7%	529,300	10.3%	81
1996-97	12.32	54,800	0.6%	535,420	10.2%	123
1997-98	12.32	55,700	1.6%	545,200	10.2%	124
1998-99	12.32	56,900	2.2%	554,400	10.3%	124
1999-00	12.50	57,900	1.8%	566,600	10.2%	125
2000-01	12.60	58,600	1.2%	583,700	10.0%	126
2001-02	12.62	59,431	1.4%	596,000	10.0%	129
2002-03	12.69	60,500	1.8%	613,500	9.9%	179
2003-04	12.79	60,769	0.4%	630,600	9.6%	130
2004-05	12.61	62,467	1.0%	653,333	9.6%	131

**SOURCE:** State of California, Department of Finance, Demographic Research Unit.  
City Finance Department Budget



**CITY OF LODI  
CONSTRUCTION ACTIVITY  
LAST TEN FISCAL YEARS**

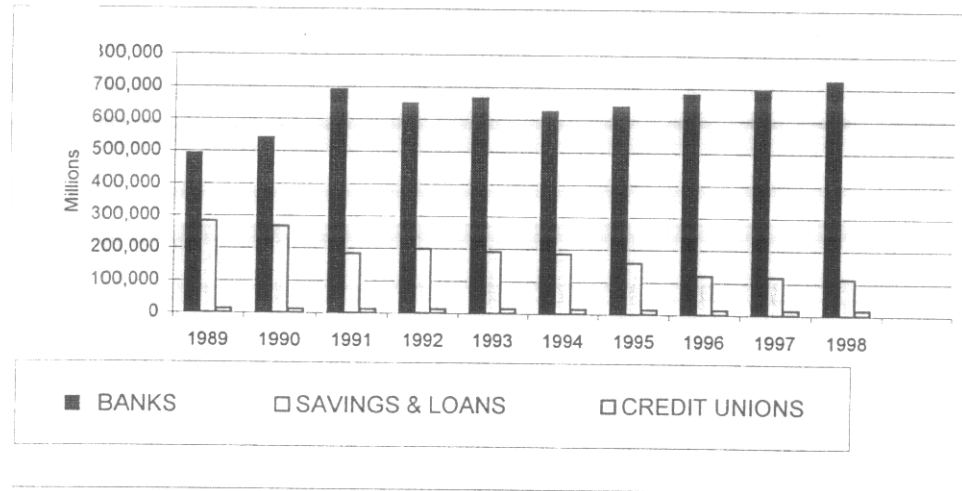
**Building Permits**



Fiscal Year	Number of Building Permits Issued	Percent Change	Estimated Valuation (in thousands)	Percent Change
1996	1464	47.28%	29,019	-35.34%
1997	1486	1.50%	57,452	97.98%
1998	1632	9.83%	59,790	4.07%
1999	1749	7.17%	74,012	23.79%
2000	1856	6.12%	77,613	4.87%
2001	2275	22.58%	104,380	34.49%
2002	2090	-8.13%	69,693	-33.23%
2003	2492	19.23%	92,815	33.18%
2004	2659	6.70%	109,565	18.05%
2005	2716	2.14%	123,729	12.93%

**SOURCE: City Community Development Department**

**CITY OF LODI  
BANK DEPOSITS  
LAST TEN FISCAL YEARS\***  
(Amounts in Millions)



Fiscal Year	BANKS	SAVINGS & LOANS	CREDIT UNIONS
1989	\$ 492,636	\$ 282,339	\$ 14,111
1990	540,545	267,501	12,813
1991	691,677	183,936	12,465
1992	649,252	198,756	13,993
1993	666,342	191,014	15,405
1994	627,132	186,159	15,689
1995	643,109	159,276	16,036
1996	682,223	121,183	15,721
1997	698,080	118,200	16,894
1998	725,210	113,431	17,729

Source: California State Department of Banking-  
Licensing & Statistics Section

\*Information on this page is the most recent data available.

**C I N OF LODI  
PRINCIPAL EMPLOYERS  
JUNE 30.2005**

<u>Employer</u>	<u>Activity</u>	<u>Employees</u>
Lodi Unified School Dist	Education	2,800
Lodi Memorial Hospital	Health Care	1,160
General Mills	Cereals and Food Mixes	457
Pacific Coast Producers	Cannery	747
City of Lodi	Government	429
Wal-Mart	General Merchant	317
CertainTeed	PVC Pipe Manufacturer	99
Target	General Merchant	186
Valley Industries	Trailer Hitches	295
Farmers and Merchants Bank	Banking	314

**SOURCE: City of Lodi Community Development Department**

CITY OF LODI  
PRINCIPAL TAXPAYERS  
JUNE 30, 2003.

<u>Property owner</u>	<u>Land Use</u>	<u>Assessed Valuation</u>	<u>Percent of Total (1)</u>
General Mills. Inc	Food Processing	\$ 177,786,543	5.26%
Lodi Memorial Hospital	Hospital	65,063,182	1.92%
Pacific Coast Producers	Manufacturing	47,421,529	1.40%
Pacific Coast Producers Corp	Manufacturing	31,718,276	0.94%
Certainteed Corp	Manufacturing	18,830,099	0.56%
Lodi 2000 Distribution Trust	Winery	17,245,650	0.51%
Interlake Material Handling Inc	Manufacturing	14,400,942	0.43%
Dart Container Corporation	Warehousing	12,604,299	0.37%
Panattoni, Carl O Et Al	Developer	12,331,031	0.36%
Sylvan Fountains Ltd PTP	Property Management	11,200,982	0.33%
		<u>\$ 408,602,533</u>	<u>12.08%</u>

(1) Local Secured Assessed Valuation: \$ 3,381,945,000

Source San Joaquin County Assessor's Office

Information on this page is the most recent data available

CITY OF LODI  
SURETY BONDS OF PRINCIPAL OFFICIALS  
JUNE 30, 2005

City Manager	\$500,000
Deputy City Manager	500,000
City Attorney	500,000
City Clerk	500,000
Public Works Director	500,000
Police Chief	500,000
Fire Chief	500,000
Finance Director	500,000
Community Development Director	500,000
Electric Utilities Director	500,000
Community Center Director	500,000
Parks and Recreation Director	500,000
Human Resources Director	500,000

City employees are covered by a commercial fidelity bond amounting to a maximum of \$500,000 per loss.

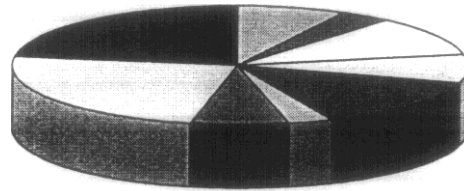
SOURCE: City of Lodi

**CITY OF LODI  
GANN APPROPRIATION LIMITATION  
Last Ten Fiscal Years**

<u>FISCAL YEAR</u>	<u>LIMIT BASE</u>	<u>CPI or INCOME</u>	<u>POPULATION GROWTH</u>	<u>GROWTH FACTOR</u>	<u>APPROPRIATION LIMITATION</u>	<u>BUDGET SUBJECT TO LIMIT</u>	<u>VARIANCE</u>
1995-96	\$ 36,515,234	10470	10131	1.0609	5 38,739,012	\$ 18,583,360	\$ 20,155,652
1996-97	38,739,012	10467	10168	1.0643	41,229,332	19,243,568	21,985,764
1997-98	41,229,332	10467	10070	1.0540	43,456,825	20,096,975	23,359,850
1998-99	43,456,825	10536	10120	1.0420	45,785,303	20,491,809	25,293,494
1999-00	45,785,303	10453	10194	1.0656	48,787,849	20,907,397	27,880,452
2000-01	48,787,849	10491	10129	1.0626	51,843,597	22,482,923	29,360,674
2001-02	51,843,597	10782	10190	1.0987	56,959,824	25,610,753	31,349,071
2002-03	56,959,824	0 9873	10214	1.0084	57,439,894	28,013,113	29,426,781
2003-04	57,439,894	10231	10169	1.0404	59,759,914	28,710,584	31,049,330
2004-05	59,759,914	10328	10075	1.0405	62,182,939	29,221,131	32,961,808

**SOURCE** City Finance Department,

**CITY OF LODI  
PERSONNEL AUTHORIZED  
LAST TEN FISCAL YEARS**



Administration	Community Development	Electric Utility
Finance Department	Fire Department	Library
Parks & Recreation	Police Department	Public Works Department

DEPARTMENT	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Administration	21	24	26	30	32	34	34	37	36	37
Community Development	13	14	14	15	15	17	17	18	17	17
Electric Utility	39	43	44	44	46	47	50	52	52	52
Finance Department	35	34	34	32	34	34	35	38	38	38
Fire Department	48	48	48	49	50	52	55	68	61	68
Library	15	14	14	14	14	14	14	15	15	15
Parks & Recreation	27	26	27	26	26	29	29	34	34	34
Police Department	106	112	112	113	113	114	115	117	116	117
Public Works Department	87	92	94	95	99	103	108	110	110	111
<b>Total</b>	<b>391</b>	<b>407</b>	<b>413</b>	<b>418</b>	<b>429</b>	<b>444</b>	<b>457</b>	<b>489</b>	<b>479</b>	<b>489</b>

SOURCE: City of Lodi Finance Department

**CITY OF LODI**  
**SCHEDULE OF TAXABLE SALES AND PERMITS BY CATEGORY**  
**LAST TEN FISCAL YEARS**  
(Amounts in Thousands)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005*
<b>SALES (IN THOUSANDS OF DOLLARS):</b>										
Apparel Stores	5,651	\$ 5,633	\$ 5,020	\$ 4,778	\$ 4,458	\$ 4,702	\$ 5,417	\$ 5,696	\$ 8,534	\$ 10,564
<b>General Merchandise Stores</b>	84,977	105,423	111,930	120,952	120,263	132,747	131,371	144,160	136,541	141,867
Drug Stores	13,411									
Food Stores	34,029	34,247	34,344	37,328	42,977	42,600	43,271	44,448	45,666	50,684
Packaged Liquor Stores	6,150									
Eating & Drinking Places	44,598	45,349	46,316	49,803	52,860	52,952	59,594	68,092	67,326	71,856
<b>Home Furnishings &amp; Appliances</b>	12,808	12,136	17,319	22,254	17,908	18,055	15,886	19,252	19,780	18,433
Building Materials & Farm Tool	31,858	29,865	32,424	39,369	47,467	45,722	46,048	41,772	42,524	53,107
Auto Dealers & Supplies	102,788	101,933	106,531	123,667	141,640	137,830	166,102	201,528	199,904	189,591
Service Stations	35,095	35,746	29,203	36,491	46,794	45,675	45,130	43,212	45,754	47,431
Other Retail Stores	30,502	39,759	45,689	47,022	48,759	49,862	49,262	48,920	53,306	56,615
<b>Total Retail Stores</b>	401,867	410,091	428,776	481,664	523,126	530,145	562,081	617,080	619,335	640,148
All Other Outlets	116,000	130,660	133,453	143,207	154,590	153,314	148,736	141,456	138,337	156,725
<b>TOTAL</b>	<b>\$ 517,867</b>	<b>\$ 540,751</b>	<b>\$ 562,229</b>	<b>\$ 624,871</b>	<b>\$ 677,716</b>	<b>\$ 683,455</b>	<b>\$ 710,817</b>	<b>\$ 758,536</b>	<b>\$ 755,672</b>	<b>\$ 796,873</b>

**PERMITS**

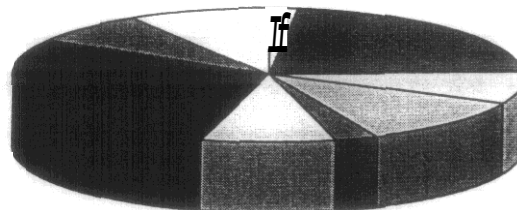
Apparel Stores	22	28	28	28	28	31	19	23	26	27
General Merchandise Stores	13	22	21	23	24	24	21	20	22	23
Drug stores	8									
<b>Food Stores</b>	45	47	51	53	59	56	61	60	61	62
Packaged Liquor Starer	7									
Eating & Drinking Places	146	146	151	151	148	153	160	165	181	180
<b>Home Furnishings &amp; Appliances</b>	41	47	43	53	55	53	63	64	72	72
Building Materials & Farm Tool	30	25	22	22	23	23	24	26	24	25
Auto Dealers & Supplies	66	78	81	77	83	81	83	80	86	86
<b>Service Stations</b>	19	17	16	15	15	16	16	15	18	18
Other Retail Stores	197	205	229	258	268	268	296	303	347	364
<b>Total Retail Stores</b>	594	615	642	680	703	705	743	756	837	857
All Other Outlets	918	900	669	875	882	869	912	894	837	917
<b>TOTAL</b>	<b>1512</b>	<b>1515</b>	<b>1511</b>	<b>1555</b>	<b>1585</b>	<b>1574</b>	<b>1655</b>	<b>1650</b>	<b>1,674</b>	<b>1,774</b>

\* First three quarters are actual. the fourth quarter is an estimate

SOURCE State Board of Equalization. State of California



**CITY OF LODI  
SCHEDULE OF TAXABLE SALES  
LAST TEN FISCAL YEARS**



- |   |   |   |
|---|---|---|
| <input type="checkbox"/> Apparel Stores                           | <input type="checkbox"/> General Merchandise Stores     | <input type="checkbox"/> Drug Stores                        |
| <input type="checkbox"/> Food Stores                              | <input type="checkbox"/> Packaged Liquor Stores         | <input type="checkbox"/> Eating & Drinking Places           |
| <input checked="" type="checkbox"/> Home Furnishings & Appliances | <input type="checkbox"/> Building Materials & Farm Tool | <input checked="" type="checkbox"/> Auto Dealers & Supplies |
| <input type="checkbox"/> Service Stations                         | <input type="checkbox"/> Other Retail Stores            |   |

C I N O F L O D I  
SCHEDULE OF BUSINESS TAX RECEIPTS ISSUED  
YEAR ENDED JUNE 30,2005

<u>TYPE OF BUSINESS</u>	<u>NO. OF BUSINESSES</u>	<u>PERCENT</u>
Located in <del>Lodi</del> :		
Agriculture. <del>Forestry</del> and Fishing	14	0.39%
Mining	0	0.00%
Construction	397	11.20%
Manufacturing	125	3.53%
Transportation and Public Utilities	31	0.87%
wholesale <del>trade</del>	91	2.57%
Retail trade	550	15.51%
Finance. Insurance and Real Estate	322	9.08%
Services	<u>2,015</u>	<u>56.85%</u>
Total	<u>3,545</u>	<u>100.00%</u>
Located <del>outside</del> Lodi:		
Agriculture. <del>Forestry</del> and Fishing	2	0.18%
Mining		0.09%
Construction	724	65.17%
<del>Manufacturing</del>	12	1.08%
<del>Transportation</del> and Public Utilities	8	0.72%
wholesale trade	34	3.06%
Retail trade	35	3.15%
Finance. Insurance and Real <del>Estate</del>	40	3.59%
Services	<u>255</u>	<u>22.95%</u>
Total	<u>1111</u>	<u>100.00%</u>
<b>Grand Total</b>	<u>4,656</u>	

SOURCE City Finance Records

CITY OF LODI  
MISCELLANEOUS STATISTICS  
JUNE 30, 2005

POPULATION		ELECTRIC UTILITY	
Population	52,457	Number of Customers	27,558
Assessed Value	54.1b	Energy Sales (KWH)	455,235,099
Building Permits Issued	2,716	Peak Demand (MW)	121.0
Date of Incorporation	December 6, 1906		
Form of Government	Council-Manager		
Employees	429	PARKS & RECREATION	
Area	12.81	Parks Developed	24
		Acres Parks Developed	275.34
		Parks Undeveloped	5
		Acres Parks Undeveloped	97.25
		Community Center	
		Swimming Pools	3
		Tennis Courts	11
		Boat Ramp	1
		Playgrounds	18
		Ball Parks Various	26
		Soccer Fields	22
		Football Field	3
		Handball/Basketball/Volleyball Courts	7.5
		Horseshoe Pits	10
FIRE PROTECTION			
Number of Stations	4		
Number of Firefighters	49		
Number of Reserve Firefighters	0		
Number of Calls Answered	4,273		
POLICE PROTECTION			
Number of Stations			
Number of Police Officers	78		
Number of Reserve Officers	3		
Number of Support Personnel	39		
Number of Calls Answered	47,198		
PUBLIC WORKS		EDUCATION	
Miles of Streets	190	Elementary Schools (public)	31
Miles of Alley Ways	14	Middle Schools (public)	a
Number of Street Lights	6,995	High Schools (public)	7
Number of Traffic Signals	60	Elementary Schools Enrollment (public)	15,462
		Middle Schools Enrollment (public)	4,570
		High Schools Enrollment (public)	8,790
WATER/WASTEWATER			
Miles of Water Mains	227	K-8 Schools (private)	5
Miles of Wastewater Lines	182	High Schools (private)	2
Number of Wastewater Treatment Plants	1	K-8 Enrollment (private)	1,249
Average Daily Treatment	6.7MG	High School Enrollment (private)	339
Maximum Daily Capacity	8.5MG		
HOSPITALS			
Number of Hospitals	1		
Number of Patient Beds	172		

## SINGLE AUDIT REPORTS

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CITY OF LODI  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Federal Grantor Pass-through Grantor or Direct Program Title	CFDA Number	Grant/Project Number	Expenditures
U.S. Department of Housing and Urban Development			
Passed through San Joaquin County Department of Planning and Building Inspection			
Community Development Block Grant/Entitlement Grants:			
2003-2004 Program Year	14.218	N/A	\$ 793,586
2002-2003 Program Year	14.218	N/A	46,344
2001-2002 Program Year	14.218	N/A	9,000
2000-2001 Program Year	14.218	N/A	3,029
1998-1999 Program Year	14.218	N/A	<u>670</u>
Total U.S. Department of Housing and Urban Development			<u>852,629</u>
U.S. Department of Justice			
Direct:			
Local Law Enforcement Block Grant	16.592	2003-LB-BX-0030	27,482
Passed through San Joaquin County Office of the District Attorney			
Byrne Formula Grant Program	16.579	DC97080390	<u>115,280</u>
Total U.S. Department of Justice			<u>142,762</u>
U.S. Department of Transportation			
Direct:			
Federal Transit Formula Grant:			
2004-2005 Program Year	20.507	N/A	939,600
2003-2004 Program Year	20.507	N/A	<u>8,538</u>
Total Federal Transit Formula Grant			<u>948,138</u>

(Continued)

See accompanying notes to the schedule of expenditures of federal awards

CITY OF LODI  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Federal Grantor			
Pas-through Grantor or Direct			
Program Title	CFDA Number	Grant/Project Number	Expenditures
U.S. Department of Transportation (Continued)			
Passed through California Department of Transportation:			
Highway Planning and Construction	20.205	CML-5154(028)	109,670
Highway Planning and Construction	20.205	CML-5154(025)	65,176
Highway Planning and Construction	20.205	CML-5154(021)	52,343
Total Highway Planning and Construction			<u>227,189</u>
Total U.S. Department of Transportation			<u>1,175,327</u>
U.S. Department of Homeland Security			
Assistance to Firefighters Grant	97.044	EMW-2003-FG-13104	48,737
Total federal awards			<u>\$ 2,219,455</u>

See accompanying notes to the schedule of expenditures of federal awards.

**CITY OF LODI**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 1 - GENERAL**

The accompanying Schedule of Expenditures of Federal Awards (SEFA) for the fiscal year ended June 30, 2005, presents the activity of all federal award programs of the City of Lodi, California (City). The City reporting entity is defined in Note 1 of the City's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included in the SEFA.

**NOTE 2 - BASIS OF ACCOUNTING**

The accompanying SEFA is presented using the modified accrual basis of accounting for grants accounted for in governmental fund types and the full accrual basis of accounting for grants accounted for in proprietary fund types, as described in Note 1 of the City's basic financial statements.

**NOTE 3 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE**

The CFDA numbers included in the accompanying SEFA were determined based on the program name, review of grant contract information and Office of Management and Budget's Catalog of Federal Domestic Assistance.

**NOTE 4 - SUBRECIPIENTS**

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

<u>Federal Program</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grant/Entitlement Grant	14.218	\$ 508,290



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT **OF** BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

The Honorable Members of City Council  
City of Lodi, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lodi, California (City), as of and for the fiscal year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 25, 2006, which contained an explanatory paragraph discussing the City's adoption of the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General **of** the United States.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose **all** matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated January 25, **2006**.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management, federal and state grantor agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Macías Grini & Company LLP*

Certified Public Accountants

Sacramento, California  
January 25, 2006



MACIAS GINI & COMPANY<sub>LLP</sub>

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND SCHEDULE OF EXPENDITURES OF FEDERAL  
AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable Members of City Council  
City of Lodi, California

*Compliance*

We have audited the compliance of the City of Lodi, California (City), with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2005. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

As described in item 05-01 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding the Davis-Bacon Act compliance requirement that are applicable to its Community Development Block Grants/Entitlement Grants **program**. Also, as described in items 05-02 and 05-03 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding the subrecipient monitoring compliance requirements that are applicable to its Community Development Block Grants/Entitlement Grants program. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

### *Internal Control Over Compliance*

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying schedule of findings and questioned costs as item 05-01, 05-02, and 05-03.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose **all** matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose **all** reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

*Schedule of Expenditures of Federal Awards*

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City, as of and for the fiscal year ended June 30, 2005, and have issued our report thereon dated January 25, **2006**, which contained an explanatory paragraph discussing the City's adoption of the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management, federal and state grantor agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Macias Gini & Company LLP*

Certified Public Accountants

Sacramento, California  
January 25, **2006**

**CITY OF LODI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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***Section I – Summary of Auditor’s Results***

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***Financial Statements:***

Type of auditor’s report issued:	Unqualified
internal control over financial reporting:	
• Material weaknesses identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

***Federal Awards:***

Internal control over major programs:	
• Material weaknesses identified?	Yes
• Reportable conditions identified that are not considered to be material weaknesses?	None reported
Type of auditor’s report issued ‘on compliance for major programs:	Qualified
<b>Any</b> audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

**CITY OF LODI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Identification of major programs:

Community Development Block Grants/Entitlement Grants CFDA #14.218  
Federal Transit Formula Grant CFDA #20.507

Dollar threshold used to distinguish  
between type A and type B programs: *\$300,000*

Auditee qualified as low-risk auditee? Yes

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**Section II - Financial Statement Findings**

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None

CITY OF LODI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30,2005

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Section III – Federal Award Findings and Questioned Costs

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*Finding No. 05-01*

*Community Development Block Grants/Entitlement Grants  
CFDA No. 14.218  
Department of Housing and Urban Development  
Davis-Bacon Act*

*Criteria*

Non-federal entities shall include in their construction contracts, subject to Davis-Bacon Act, a requirement that contractors or subcontractors comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, "Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction"). This includes a requirement for contractors or subcontractors to submit to the non-federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6).

*Condition*

The County of San Joaquin performs the function of ensuring that contractors submit weekly a copy of the payroll and a statement of compliance related to construction activities funded by Community Development Block Grant funds for the City. Per our testing of weekly payrolls submitted by one contractor to the County of San Joaquin, we noted that several weekly payrolls records were missing for the period of November 2004 through mid-March 2005. This period corresponds with the contractor's progress payments #7 through #9, which were approved for payment using Community Development Block Grant funds allocated to the City. It is evident that the County of San Joaquin is not receiving a copy of the payroll and a statement of compliance for each week in which contract work is performed. As the County of San Joaquin was missing payrolls and statements of compliance, we could not ascertain a complete population to verify that contractors and subcontractors were submitting weekly required certified payrolls.

*Questioned Costs*

The amount paid on the contract in question during the year was \$309,180.

**CITY OF LODI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

***Cause***

The County of San Joaquin does not reconcile copies of payrolls and statements of compliance received to progress payments made to the contractor on a timely basis. Per the County of San Joaquin, a final reconciliation of certified payrolls records with progress payments has not been completed. This final reconciliation process is typically done when the City has submitted a "Notice of Completion," a copy of the resolution from the City's City Council accepting the project as completed, and a request to release the contractor's retention payment, at which time the project is closed-out and reported to the Department of Housing and Urban Development's Department of Labor on the County's quarterly report.

***Effect***

The County of San Joaquin and the City could be subject to sanctions

***Recommendation***

The County of San Joaquin should reconcile on a timely basis, at least quarterly to ensure they are receiving a copy of payrolls and statement of compliance each week.

***Management's Response***

County of San Joaquin indicated that the process of performing a final reconciliation when the City has submitted a Notice of Completion, a copy of the resolution from the City's City Council accepting the project as completed, and a request to release the contractor's retention payment, at which time the project is closed-out and reported to the Department of Housing and Urban Development's Department of Labor on the County's quarterly report is sufficient.



**CITY OF LODI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

***Finding No. 05-02***

***Community Development Block Grants/Entitlement Grants***  
***CFDA No. 14.218***  
***Department of Housing and Urban Development***  
***Sub-recipient Monitoring***

***Criteria***

A pass-through entity is responsible for award identification. At the time of the award, the pass-through entity should identify to the **sub-**recipient the federal award information (e.g., Catalog of Federal Domestic Assistance (CFDA) title and number, award name, name of federal agency) and applicable compliance requirements.

***Corrditiori***

Per our review of the sub-recipient agreement between City and the Salvation Army, we noted that the City did not identify in that agreement the federal award information.

***Questioned Costs***

The amount passed-through to the Salvation Army during the year was \$355,360.

***Cause***

The City was unaware of these requirements.

***Effect***

The City could be subject to sanctions.

***Recommendation***

We recommend that the City ensure it includes in its **award** documentation to sub-recipients the federal award information (e.g., CFDA title and number, award name, name of federal agency) and applicable compliance requirements.

CITY OF LODI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

***Management's Response***

The Community Development Director for the City indicated that he consulted with the County of San Joaquin, who administers the Community Development Block Program Consolidated **Plan** for participating jurisdictions, which includes the City, and she indicated she was not familiar with the CFDA title and number of the program. Based on that information, the Community Development Director for the City believed that the City agreement with the Salvation Army was in accordance with OMB Circular **A-133**.

***Finding No. 05-03***

***Community Development Block Grants/Entitlement Grants***

***CFDA No. 14.218***

***Department of Housing and Urban Development***

***Sub-recipient Monitoring***

***Criteria***

Monitoring the sub-recipient's use of federal awards through site visits or other means is required to provide reasonable assurance that the sub-recipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

***Condition***

The City has a sub-recipient agreement dated November 1, 2004 with the Salvation Army that requires the Salvation Army to submit three quarterly reports and one annual report. Per our testing, we noted that the Salvation Army has not submitted any of the required reports as required by the sub-recipient agreement. Further inquiry established that the City Community Development Department does not have a written sub-recipient monitoring procedures policy.

***Questioned Costs***

The amount passed-through to the Salvation Army during the year was \$355,360.

CITY OF LODI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

*Cause*

The City Community Development Department does not have in place a sub-recipient monitoring policy that establishes written procedures for effective monitoring of sub-recipients. In addition, per admission of the Community Development Director the City, the Community Development Department does not have sufficient staff to document timely management decisions for audit and monitoring findings, maintain a system to track and following-up on reported deficiencies related to programs funded by the recipient, or maintaining regular contacts with sub-recipients and appropriate inquiries concerning the federal programs.

*Effect*

The City could be subject to sanctions

*Recommendation*

We recommend that the City **put** into place a comprehensive monitoring policy that establishes clear guidelines for communication of federal award requirements to sub-recipients, responsibilities for monitoring sub-recipients, process and procedures for monitoring, methodology for resolving findings of sub-recipient noncompliance or weaknesses in internal control, and requirements for and processing of sub-recipient audits, including appropriate adjustment of pass-through entity's accounts. In addition, we recommend that the City obtain sufficient staffing resources in order to enhance monitoring of sub-recipients. Additional funding for staff can be obtained by using Community Development Block Funds for administration. Currently, the Community Development Department can use 20% of Community Development Block Grant Funds for administration, however administration charges to these funds have been well below the allotted percentage.

*Management's Response*

The Community Development Director indicates that they will not receive any monitoring reports from the Salvation Army until after the City delivers the funds and that any monitoring requirements can be handled in their day to day involvement with the Salvation Army.

**CITY OF LODI**  
**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30,2005**

***Prior Year Finding 04-01***

***Federal Transit Formula Grant***

***CFDA No. 20.507***

***U.S. Department of Transportation - Federal Transit Administration***

***Special Tests and Provisions - Charter Service***

***Criteria***

The City is required to comply with title **49** CFR part 604 with regard to its use of equipment for charter services funded with FTA funds.

***Condition***

The City used FTA funded equipment for charter services and did not follow the following procedures specified by the FTA under title **49** CFR part **604.11**.

Procedures:

- (a) To determine if there is at least one private charter operator willing and able to provide the charter service that the recipient desires, the recipient must complete a public participation process:
  - (1) At least 60 days before it desires to begin to provide charter service if it is not doing so on May 13, 1987; or
  - (2) Not more than 90 days after May 13, 1987 if the recipient is providing charter service on May 13, 1987 and desires to continue to provide charter service.
- (b) The public participation process must at a minimum include:
  - (1) Placing a notice in a newspaper, or newspapers, of general circulation within the proposed geographic charter service area;
  - (2) Sending a copy of the notice to all private charter service operators in the proposed geographic charter service area and to any private charter service operator that requests notice;

CITY OF LODI  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30,2005

- (3) Sending a copy of the notice to the United Bus Owners of America , 1300 L Street, NW., suite 1050, Washington, DC 20005, and the American Bus Association, 1100 New York Avenue, NW, Suite 1050, Washington, DC 20005-3934.

(c) The notice must:

- (1) State the recipient's name;
- (2) Describe the charter service that the recipient proposes to provide limited to the days, times of day, geographic area, and categories of revenue vehicle, but not the capacity or the duration of the charter service.
- (3) Include a statement providing any private charter operator desiring to be considered willing and able with at least **30** days from the date of the notice to submit written evidence to prove that it is willing and able;
- (4) State the address to which the evidence must be sent.
- (5) Include a statement that the evidence necessary for the recipient to determine if a private charter operator is willing and able includes only the following:
  - (i) A statement that the private operator has the desire and the physical capability to actually provide the categories of revenue vehicle specified; and
  - (ii) **A** copy of the documents to show that the private charter operator has the requisite legal authority to provide the proposed charter service and that it meets all necessary safety certification, licensing and other legal requirements to provide the proposed charter service.
- 6) Include a statement that the recipient shall review only that evidence submitted by the deadline, shall complete its review within 30 days of the deadline, and within 60 days of the deadline shall inform each private operator that submitted evidence what the results of the review are.

CITY OF LODI  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)  
**FOR THE FISCAL YEAR ENDED JUNE 30,2005**

(7) Include a statement that the recipient shall not provide any charter service using equipment or facilities funded under the Acts to the extent that there is at least one willing and able private charter operator unless the recipient qualifies for one or more of the exceptions in 49 CFR 604.9(b).

(d) Any recipient that desires to continue to provide charter service using **FTA** funded equipment or facilities shall follow the procedures in 49 CFR 604.11 (b) and (c) annually during the month in which it published its first newspaper notice to re-determine the extent to which there is at least one willing and able private charter operator.

*Cause*

The City was unaware of the compliance requirements of the FTA

*Effect*

The City could be liable to sanctioning by these grantor agencies.

*Recommendation*

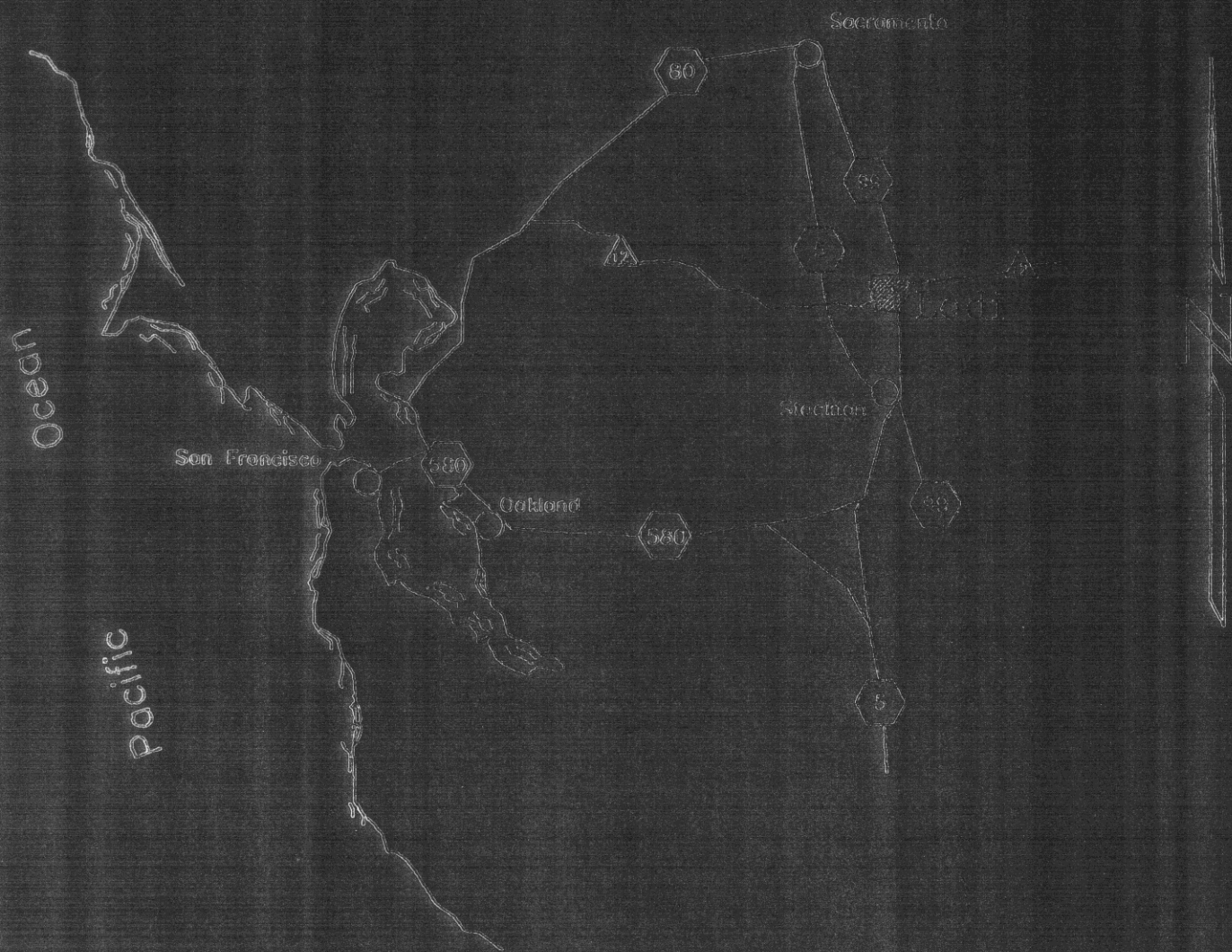
The City should review FTA guidelines as they relate to charter services using FTA funded equipment and incorporate those guidelines into their policy on providing charter services.

*Prior Year Management's Response*

The City Transportation Department is implementing procedures as required by the FTA to ensure compliance is the use of equipment funded by the FTA in charter services.

*Current Status*

Per letter dated December 28, 2004, received from the FTA, the FTA considers the City's revised charter policy to be in compliance with FTA guidelines. Therefore, we consider the recommendation implemented.



# LOCATION MAP

No Scale